

U.S. GENERAL ACCOUNTING OFFICE  
SERVING THE CONGRESS AND THE NATION

# Performance & Accountability

2001 R E P O R T

20020314 053



ACCOUNTABILITY REPORT 2001  
PERFORMANCE REPORT 2001  
PERFORMANCE PLAN 2003

# SERVING THE CONGRESS GAO'S STRATEGIC PLAN FRAMEWORK



## MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the benefit of the American people.

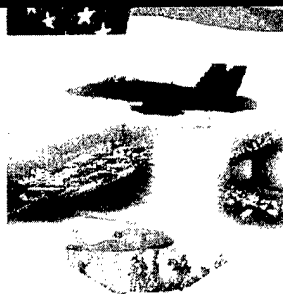
## GOALS

PROVIDE TIMELY, QUALITY SERVICE TO THE  
CONGRESS AND THE FEDERAL GOVERNMENT



TO ADDRESS CURRENT  
AND EMERGING  
CHALLENGES TO THE  
WELL-BEING AND  
FINANCIAL SECURITY  
OF THE  
AMERICAN PEOPLE

SUPPORT THE  
TRANSITION



TO RESPOND TO  
CHANGING  
SECURITY THREATS  
AND THE  
CHALLENGES  
OF GLOBAL  
INTERDEPENDENCE

MAXIMIZE THE  
VALUE OF GAO



BY BEING A  
MODEL  
ORGANIZATION  
FOR THE  
FEDERAL  
GOVERNMENT

## THEMES

Demographics

Globalization

Quality of Life

Security

Technology

Government Performance and Accountability

## OBJECTIVES

Health care needs and financing  
Retirement income security  
Social safety net  
Education/workforce issues  
Effective system of justice  
Community investment  
Natural resources use and environmental protection  
Physical infrastructure

Diffuse security threats  
Military capabilities and readiness  
Advancement of U.S. interests  
Global market forces

Fiscal position of the government  
Government financing and accountability  
Governmentwide management reforms  
Economy, efficiency, and effectiveness improvements in federal agencies

Client relations  
Strategic and annual planning  
Human capital  
Core business and supporting processes  
Information technology services

## CORE VALUES

Accountability

Integrity

Reliability

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# *From the Comptroller General*



February 27, 2002

I am pleased to present GAO's performance and accountability report; it combines an assessment of our accomplishments in fiscal 2001 with our plans for continued progress through fiscal 2003. In keeping with the spirit of the Government Performance and Results Act (GPRA), we want to let the Congress and the American people know what we have achieved and how we expect to continue to work on their behalf. I am confident that the financial information and the data measuring GAO's performance contained in this report are complete and reliable.

The year 2001 was characterized by a series of unprecedented challenges for the federal government. After a lengthy waiting period to decide the results of the presidential election, the year began with a new administration and a new policy agenda. Within a short time, the leadership of the Senate changed as well. Although the year began with the nation at peace and with modest economic growth, by year's end, the nation was at war and the economy was in recession.

Against this backdrop, GAO served the Congress and the American people in a variety of ways. First, our 2001 *Performance and Accountability Series and High-Risk Update* identified close to 100 major management challenges and program risks at 21 federal agencies and highlighted actions needed to address these serious problems. The series proved useful in carrying out our responsibility under the Presidential Transition Act to serve as a key source of information for the incoming administration and members of the 107<sup>th</sup> Congress. Among the issues we brought to their attention was the importance of addressing the strategic human capital needs of the federal government being triggered by the impending retirements of the baby-boom generation, by inadequately planned downsizing in the 1990s, by the knowledge and skills imbalances created by a changing economy and new technology, and by the need to create a more performance- and results-oriented work culture.

Citizens benefited directly from GAO's work as federal agencies took a wide range of actions based on our analyses and recommendations. The results ranged from improving services to low-income children and disabled veterans, to protecting consumers from insurance fraud, to identifying billions of dollars in savings and resources that could be reallocated to meet other priorities. In total, GAO's efforts helped the Congress and government leaders to save \$26.4 billion—a \$69 return on every dollar invested in GAO.

Because of our past work and work in progress, we were able to provide timely, rapid assistance on the issues raised by the tragic events of September 11. In numerous congressional hearings, GAO's witnesses offered suggestions for strengthening the security

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of the nation's airports and air traffic control system, for protecting critical information technology infrastructure, and for enhancing government's ability to analyze and manage security risks, including bioterrorism. We were also able to highlight a number of safeguards that could be used in structuring financial assistance to the airlines, several of which were incorporated in the emergency \$15 billion financial aid package that was enacted.

Closer to home, 2001 was a significant year for GAO because it marked the 80<sup>th</sup> anniversary of our agency. It was also a year marked by changes designed to better position our agency for the future. As the seventh comptroller general of the United States, I am pleased and honored to be able to lead the more than 3,000 public servants who make up the GAO team. I also take great pride in the many years of service this agency has provided the nation. Building on this legacy, we at GAO look forward to continuing to help the Congress and the nation meet the challenges of the 21<sup>st</sup> century.

A handwritten signature in black ink, appearing to read "D.M. Walker", followed by a horizontal line.

David M. Walker  
Comptroller General of the United States




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# *The Comptroller General's FMFIA Assurance Statement for Fiscal 2001*

On the basis of GAO's comprehensive management control program, I am pleased to certify, with reasonable assurance, that

- our financial reporting is reliable—Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- GAO is in compliance with all applicable laws and regulations—Transactions are executed in accordance with (a) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements and (b) any other laws, regulations, and governmentwide policies applicable to GAO.
- our performance reporting is reliable—Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with the criteria stated by GAO's management.

I also believe these same systems of accounting and internal controls provide reasonable assurance that GAO is in compliance with the spirit of 31 U.S.C. 3512, formerly the Federal Managers' Financial Integrity Act (FMFIA).



David M. Walker  
Comptroller General of the United States

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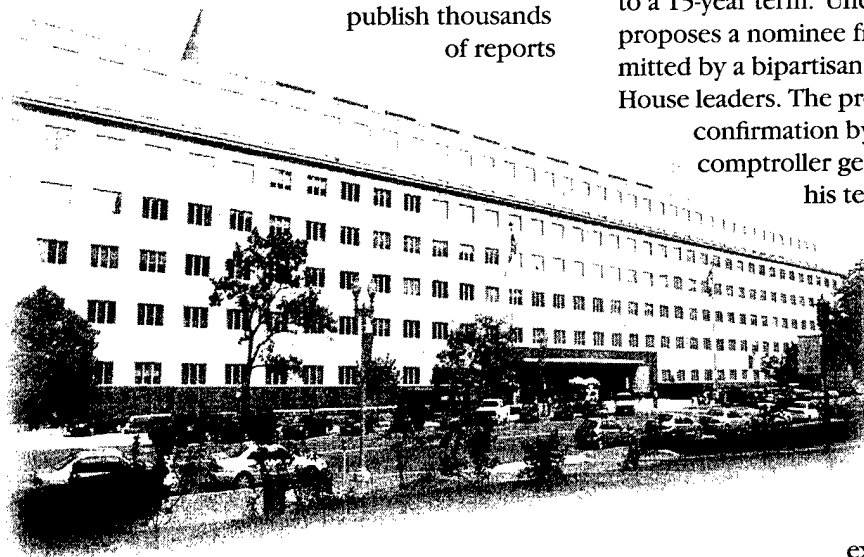
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# GAO at a Glance

**Mission:** Support the Congress in meeting its constitutional responsibilities and help improve the performance and accountability of the federal government for the benefit of the American people.

The U.S. General Accounting Office is an independent, professional, nonpartisan agency in the legislative branch that is commonly called the investigative arm of the Congress or the Congress's "watchdog." Created in 1921 as a result of the Budget and Accounting Act, GAO has seen its role evolve over the decades as the Congress has expanded the agency's statutory authority and called on GAO with much greater frequency for oversight, insight, and foresight in addressing the growing complexity of government and society.

Today, we examine the full breadth and scope of federal activities and programs, publish thousands of reports



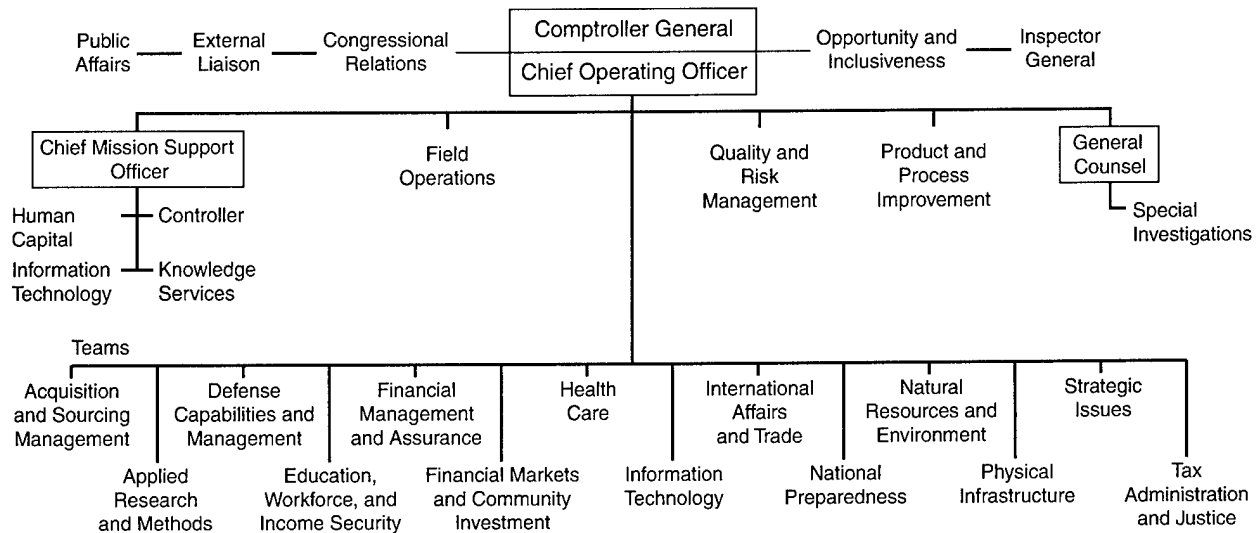
GAO's headquarters is in downtown Washington, D.C., at 441 G Street, Northwest. Three quarters of GAO's approximately 3,200 employees are based at headquarters. The remainder of the staff is deployed in field offices from coast to coast.

and other documents annually, and provide a number of related services. We also look at national and international trends and challenges to anticipate their implications for public policy. By making recommendations to improve the practices and operations of government agencies, GAO contributes not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers' trust and confidence in their federal government.

We rely on a workforce of highly trained professionals who hold degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, and the social and physical sciences. They are arrayed in 14 research, audit, and evaluation teams backed by staff offices and mission support units.

The agency's chief executive officer is the comptroller general of the United States, who is appointed to a 15-year term. Under current law, the president proposes a nominee from a list of candidates submitted by a bipartisan commission of Senate and House leaders. The president's nominee is subject to confirmation by the Senate. The current comptroller general, David M. Walker, began his term in November 1998.

To ensure that GAO is well positioned to meet the Congress's needs in the future, we update our 6-year strategic plan every 2 years, consulting extensively with our clients on Capitol Hill and with other experts as we do so. Using the plan as a frame of reference, we respond to congressional requests for specific work throughout the year. These requests drive most of our work—87 percent in fiscal 2001. The remainder is "R&D": work we undertake independently as authorized under our enabling legislation. Each year, we hold



ourselves accountable to the Congress and the American people for our performance, primarily through this consolidated report you are reading.

As a legislative branch agency, GAO differs in some ways from executive branch agencies. We are, for instance, exempt from many laws designed to improve the performance and accountability of the executive branch. However, because one of our strategic goals is to maximize our value by serving as a model agency for the federal government, we hold ourselves to the spirit of many of these laws, including 31 U.S.C. 3512 (formerly the Federal Managers' Financial Integrity Act), the Federal Financial Management Improvement Act of 1996, the Government Performance and Results Act of 1993, and the Consolidated Reports Act of 2000. Accordingly, this consolidated report supplies what we consider to be equivalent information within the context of GAO's structure and mission and the statutes under which we operate.

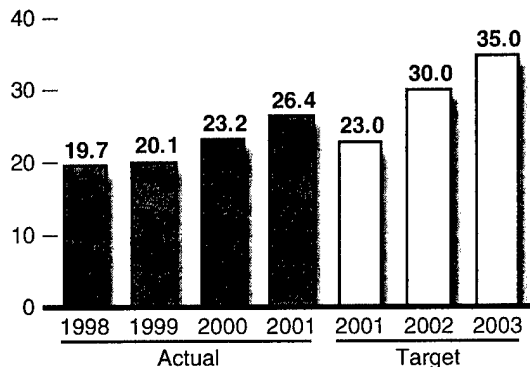
On the pages that follow, we assess our performance for fiscal 2001 and outline our planned performance for fiscal 2003. Our current activities in fiscal 2002 are discussed as necessary to bridge our past performance and our future plans. This report, along with previously issued strategic plans, performance plans, and performance and accountability reports, is available at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).



# Performance at a Glance

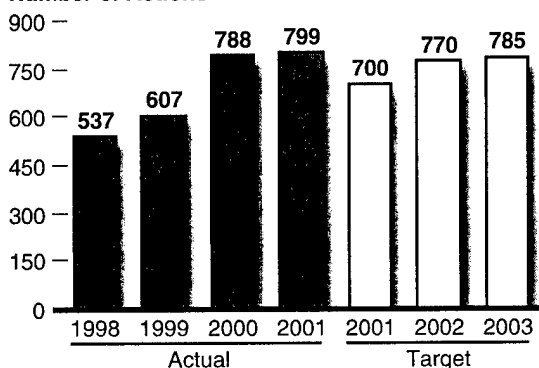
## Financial Benefits

Dollars in Billions



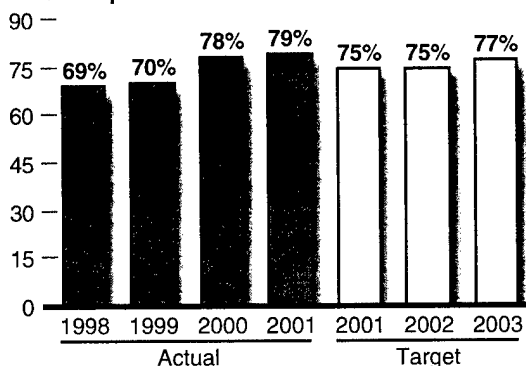
## Other Benefits

Number of Actions



## Recommendations Implemented

4-Year Implementation Rate



In fiscal 2001, we exceeded all but one of the targets for GAO's performance measures. As the charts displaying data for the past 4 years show, our results have steadily improved in nearly every instance. We have introduced an additional performance measure for fiscal 2002 on recommendations and have set targets for our performance through fiscal 2003. Here are the highlights:

### Financial benefits: \$26.4 billion

We achieve financial benefits when our findings and recommendations are used to make government services more efficient, to improve the budgeting and spending of tax dollars, or to strengthen the management of federal resources. Our work on military base realignments and closures, restructuring the defense acquisition workforce, and recapturing unexpended balances in a major federal housing program, for instance, together yielded more than \$12 billion of the year's financial benefits.

### Other benefits: 799 actions taken to improve government agencies' management or performance

Not all actions on our findings and recommendations produce measurable financial benefits. We measure these other types of improvements by tabulating the number of cases in which our findings and recommendations have prompted federal agencies or the Congress to improve management or performance. The 799 actions reported for fiscal 2001 include actions to combat terrorism, to strengthen public safety and consumer protection, to improve computer security controls, and to establish more effective and efficient government operations.

### Recommendations implemented: 79 percent of the recommendations made 4 years ago

One way we measure our impact in improving the government's accountability, operations, and services is by tracking the percentage of recommendations we made 4 years ago that have since been implemented. That is, by the end of fiscal 2001, 79 percent of the recommendations we made in fiscal 1997 had been implemented. These recom-

mendations lead to the financial and other benefits, such as improvements in national security, health care programs, and controls over federal finances. We use a 4-year interval because our historical data show that agencies often need this time to complete action on our recommendations.

#### Recommendations made: 1,563 recommendations

Because it takes time for agencies to implement our recommendations, we also tabulate, as an interim measure of performance, the number of recommendations we make each year. In fiscal 2001, our recommendations targeted improvements in the economy, efficiency, and effectiveness of federal operations that could yield significant financial and other benefits. Our work on information security and federal financial management is largely responsible for the high number of recommendations in fiscal 2001. We have found that in those two areas, highly specific (and therefore numerous) recommendations are the most helpful to the agencies in question as they work to improve their operations.

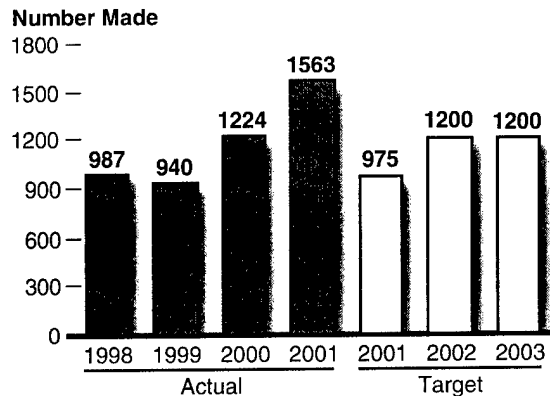
#### Products containing recommendations: 44 percent—a new measure for fiscal 2002

We are introducing this measure to track the percentage of our written products that contain recommendations to improve government operations and services because simply tracking the number of recommendations made each year does not tell the full story. A report with a single recommendation can produce far-reaching improvements. To develop a fiscal 2002 target for this measure, we calculated previous years' percentages as benchmarks.

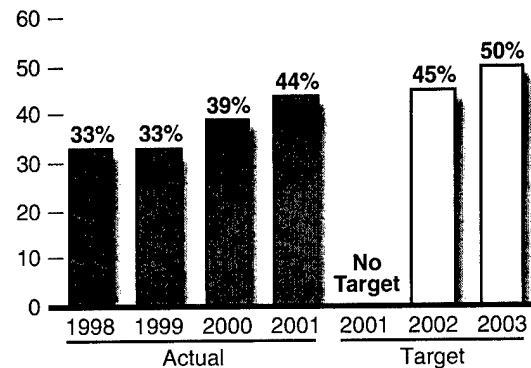
#### Testimonies: 151 given before the Congress

Because one of GAO's primary functions is to support the Congress in its decision making and oversight responsibilities, the number of times our witnesses testify each year is an indicator of our responsiveness and the value our clients place on our work. Our target and results for fiscal 2001 were lower than those for previous years because external factors, such as a new Congress and a new administration both beginning work, reduced the number of congressional hearings. Nonetheless, we testified on a broad range of subjects, including combating terrorism, energy prices, and federal budget issues.

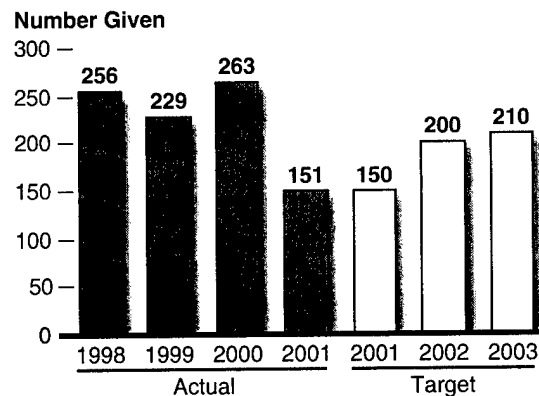
#### Recommendations Made



#### Products with Recommendations

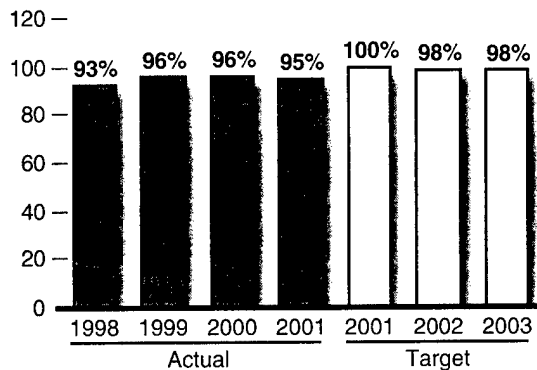


#### Testimonies



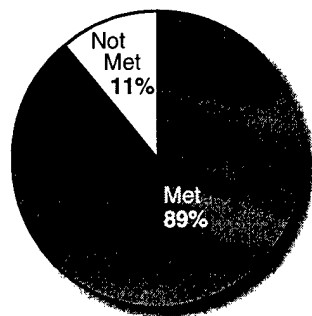
## Timeliness

### Products on Time



## Qualitative Performance Goals

### 94 Qualitative Performance Goals



### Timeliness: 95 percent of our products delivered on time

For our work to be useful, our clients must have it on a timely basis. We therefore compare actual product delivery dates with the dates agreed to with our clients. We set an idealistic target of 100 percent for fiscal 2001 to emphasize the importance of providing timely information and will continue to strive to deliver all of our products when they are expected. Occasionally, external factors beyond our control may delay a product. To reflect that reality, we have reduced our target for fiscal 2002 and 2003 to 98 percent, still a challenge for our staff, but not an unattainable one.

### Qualitative performance goals: 89 percent achieved

Our qualitative performance goals lay out the work we plan to do to achieve financial and other benefits. Among the 94 performance goals assessed this year were "identify ways to administer our nation's immigration laws more efficiently and effectively" and "assess the effectiveness of federal food safety programs." For a goal to be met, we must have provided information or recommendations on the work planned under its key efforts, when viewed collectively. Our results—89 percent of the goals met—were heavily influenced by our decision to synchronize our assessment and strategic planning cycles, which meant assessing our performance on these goals after 2 years instead of 3 years as originally planned. The work remaining under these goals has been carried forward in our updated strategic plan.



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# *How to Use This Report*

This report consolidates GAO's performance and accountability reports for fiscal 2001 with the agency's performance plan for fiscal 2003, as called for by the Reports Consolidation Act of 2000. When necessary to make the connections clear between our past performance and our future plans, we discuss our current activities in fiscal 2002.

In assessing our performance, we are comparing actual results against targets and goals set in a previous performance plan. That annual plan was developed under GAO's strategic plan for fiscal 2000 through 2005. The key components of the strategic plan are outlined in the diagram on the inside front cover of this report. Our full family of strategic planning and performance and accountability reports is available on our Web site at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).

This report has three major sections:

## ■ **Management's Discussion and Analysis**

Look here for a summary of GAO's performance and financial results for fiscal 2001, agencywide and by each of our strategic goals, along with our plans for fiscal 2003; the strategies we use and the challenges we face in achieving our goals, including our management challenges and the external factors that could affect our performance; and an explanation of our performance measures and how we verify and validate our performance data. At the end of this section, we discuss GAO's budget request for fiscal 2003.

## ■ **Financial Statements and Independent Auditor's Report**

Look here for GAO's audited financial statements for fiscal 2001, the notes to our financial statements, the report of our Audit Advisory Committee of distinguished experts with government and private sector experience, and the report of our independent auditor, Cotton & Company, LLP.

## ■ **Appendixes**

Look here for more detailed information on our performance results for fiscal 1998 through 2001 and targets for fiscal 2001 through 2003, our accomplishments and contributions for fiscal 2001, our assessments of whether we met or did not meet the qualitative performance goals for fiscal 2000 and 2001, our performance goals for fiscal 2002 and 2003, and our annual report on the GAO Personnel Flexibility Act of 2000 (P.L. 106-303).

[REDACTED]

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# *Management's Discussion and Analysis*

All of GAO's efforts are guided by three core values:

## **Accountability**

We help the Congress oversee federal programs and operations to ensure accountability to the American people. GAO's analysts, auditors, lawyers, economists, information technology specialists, investigators, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American people. GAO accomplishes its mission through a variety of activities, including financial audits, program reviews, investigations, legal support, and policy analyses.

## **Integrity**

We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all activities. Integrity is the foundation of reputation, and the GAO approach to work ensures both.

## **Reliability**

We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high-quality reports, testimony, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

In its 80<sup>th</sup> year as the Congress's "watchdog," the U.S. General Accounting Office recorded more than \$26 billion in financial benefits for the American taxpayer along with nearly 800 other actions taken to improve government agencies' management or performance. Those numbers reflect not only the achievements of GAO's staff but also those of the Congress and of the many federal agencies that acted on our findings and recommendations to improve the government's services and operations.

To ensure that improvements continue, we made more than 1,500 new recommendations in fiscal 2001 and drafted a new set of qualitative performance goals to help guide our staff's work through the end of fiscal 2003. As always, our work will be largely driven by requests from our congressional clients. As the Congress confronts the shifting priorities and new demands that flow from the heightened need for greater national preparedness, we are shifting our own priorities to provide the information and analyses the Congress will need.

In this section, we discuss GAO's performance and financial results for fiscal 2001. Past years' performance and future targets—first for the agency as a whole and then for each of the agency's four strategic goals—are described. Next, we discuss the strategies we will use and the challenges we expect to face in achieving our goals. We also explain how we verify and validate our performance data and how we evaluate our progress. Finally, we provide highlights of our budget request for fiscal 2003, thus tying the results we expect to achieve to the resources we need to achieve those results.

## Performance and Financial Information

### *Performance and Targets:* **Agencywide**

We track GAO's performance using six quantitative measures designed to show the extent to which our work is being used and whether our work is achieving the desired results. We are adding a seventh performance measure for fiscal 2002. The table below summarizes our results since fiscal 1998 and provides our targets for fiscal 2002 and 2003. A fully annotated version of the table, along with tables of results and targets for each of GAO's strategic goals, is in appendix I. In addition to our annual quantitative measures, we also set multiyear qualitative performance goals to help us assess whether we have done the work we planned to do for our congressional clients. In this report, we are assessing our performance on these multiyear goals for the first time. In light of our actual performance over the last 4 years, we expect to achieve our performance targets and qualitative goals for fiscal 2002 and 2003.

#### **Financial Benefits**

In fiscal 2001, GAO recorded \$26.4 billion in financial benefits from our agency's past work, exceeding our target for the year of \$23 billion and also exceeding last year's results of \$23.2 billion. This is a 34 percent increase over our 1998 results of \$19.7 billion.

One reason for the overall increase here and for our other measures, we believe, is the simple fact that we have adopted them as important indicators of our performance. Our executives and managers are tasked by the comptroller general to, among other things, program work that has potential for producing financial benefits for the nation. Each of GAO's strategic goals and research, audit, and evaluation teams has a target for financial benefits and documents any accomplishments being claimed with the independent calculations of the affected agency, the Congressional Budget Office, or the Joint Committee on Taxation. Other factors are that as the size of the federal budget has increased, we have had opportunities to achieve larger financial benefits, and the implementation rate for our recommendations has increased. Examples of the work we did to achieve financial benefits are highlighted on the next page. Additional examples are in appendix II.

For fiscal 2002, we initially set a target of \$24 billion after meeting with each of our teams and assessing likely actions on our recommendations. We have since revised the target to \$30 billion to reflect changes in the way we tabulate certain financial benefits. In the past, we limited the period for which financial benefits from a particular action directly attributable to, or significantly influenced by, our work could be tabulated to 2 fiscal years. While we are retaining the 2-year limit for financial benefits from reductions in agencies' annual operating costs (achieved, for instance, through decreasing the number of staff assigned to a specific program in response to a GAO recommendation), beginning in fiscal 2002, we are extending the period to 5 years for financial benefits from reductions in the costs of

#### **Agencywide Results and Targets**

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$19.7	\$20.1	\$23.2	\$23.0	\$26.4	\$30.0	\$35.0
Other benefits	537	607	788	700	799	770	785
Recommendations implemented	69%	70%	78%	75%	79%	75%	77%
Recommendations made	987	940	1,224	975	1,563	1,200	1,200
Products with recommendations	33%	33%	39%	N/A	44%	45%	50%
Testimonies	256	229	263	150	151	200	210
Timeliness	93%	96%	96%	100%	95%	98%	98%

Note: Please see appendix I for full explanations of the data in this table.

## GAO at Work

### **Contributing to the Military Base Closure and Realignment Process**

GAO has issued a number of reports since 1979 documenting excess infrastructure within the Department of Defense (DOD) and supporting the need for a base closure and realignment process. After the Congress's authorization of such a process, GAO was legislatively required to provide the Congress with a series of reports and testimonies validating DOD's implementation. GAO monitored and assessed all phases of the decision-making process, including executive-level sessions, for compliance with congressional requirements. In addition, GAO provided staff to each commission established to recommend base closures and realignments for rounds held in 1991, 1993, and 1995. The staff helped shape the commissions' decisions through analysis of issues associated with closing or realigning specific installations. GAO estimated \$6 billion in net savings in fiscal 1999 and 2000 for the three base closure rounds.

### **Cutting the Cost of Defense's Acquisition Infrastructure**

In a series of reports and comments on legislation for the House National Security Committee beginning in the mid-1990s, GAO examined numerous facets of DOD's acquisition infrastructure, of which its acquisition workforce is a major component. GAO's primary messages were that acquisition infrastructure reductions had not kept pace with reductions in other areas of DOD's operations and that the acquisition workforce needed to be consistently defined to effect appropriate reductions. Consequently, DOD redefined the workforce and the Congress directed DOD to develop specific plans for reducing its acquisition workforce. These workforce reductions totaled \$3.32 billion and freed the funds for other high-priority items.

### **Recapturing Unexpended Balances in a Federal Housing and Urban Development Program**

GAO reviewed the unexpended balances in the Department of Housing and Urban Development's (HUD) Section 8 program, in which HUD contracts with property owners to provide housing for low-income families. GAO recommended that HUD revise the procedures used to review unexpended balances and ensure that excess balances were recaptured from this program. Subsequently, HUD recaptured nearly \$3 billion of unexpended balances from prior years' budgets. According to HUD officials, the savings directly resulted from their implementation of GAO's recommendation.

multiyear projects and entitlements and from increases in revenues from asset sales or changes in tax laws or user fees. The longer period more accurately reflects the value realized by the taxpayers from changes brought about by our work and is a conservative measure because some of our efforts produce financial benefits that extend beyond 5 years. We continue to use a 2-year period when reporting benefits generated by changes made to federal agencies' operations because experience has shown that it is difficult for agencies to maintain the momentum on changes of this type over extended periods. Because this revision to our methodology will produce data that are not comparable to past financial benefits results, during fiscal 2002, we will tabulate financial benefits using both methodologies to produce comparable data. Also beginning with fiscal 2002, all financial benefits will be reported in net present value terms, a change that ensures our results will be fair and accurate regardless of inflation.

As always, the financial benefits GAO reports will continue to be based on the calculations of independent sources. Because agencies need time to implement GAO's recommendations and document savings, the financial benefits we report in a given year may be based on work we performed in the current or previous years.

For fiscal 2003, our target is \$35 billion, again reflecting the longer period instituted for tabulating some types of financial benefits. Without that reporting change, the target would have been \$26 billion.

#### **Other Benefits**

GAO's work results in other tangible benefits that are not financial in nature, as the examples on the next page show. In fiscal 2001, we documented 799 cases in which our work prompted actions to be taken that improved government agencies' management or performance. This total exceeded our target of 700 cases and also slightly exceeded our fiscal 2000 figure of 788 actions—almost a 49 percent increase over our 1998 results of 537 actions.

As with financial benefits, some of the increase recorded for this measure is attributable to our having adopted other benefits as a performance indicator. Our staff now makes a greater effort to follow up on GAO's recommendations to determine

whether agencies have acted on them and to document any benefits achieved. Another reason for the increase stems from the fact that, through the establishment of other performance measures, we have encouraged our staff to focus on developing cost-effective, implementable recommendations. As a growing percentage of these recommendations has been acted on over the years, the numbers of improvements in government operations and services counted here as other benefits have grown. Our work on information technology issues and on financial management and accountability issues, in particular, has generated a number of recommendations in the past that are now paying off for the American people in better information security and more effective financial controls, among other improvements. In light of agencies' current efforts to implement recommendations we have made, we believe targets of 770 actions in fiscal 2002 and 785 actions in fiscal 2003 are appropriate.

#### **Recommendations Implemented**

By the end of fiscal 2001, 79 percent of the recommendations we made 4 years ago had been implemented, exceeding our target of 75 percent and roughly matching the fiscal 2000 implementation rate of 78 percent. The current results are up 10 percentage points from the implementation rate in fiscal 1998 of 69 percent.

Adopting the implementation rate for our recommendations as a key indicator has helped increase our staff's focus on writing recommendations that are action-oriented and feasible. Another factor is that we have placed greater emphasis on identifying and promoting best practices of private and public sector organizations that can be applied to the federal government. Including better recommendations in our products and following up more diligently to learn what progress the agencies have made with them have raised the implementation rate 10 percentage points in 4 years. We do not anticipate continued gains of that magnitude. Our fiscal 2002 target is 75 percent once again and our fiscal 2003 target is 77 percent.

#### **Recommendations Made**

In the products we issued during fiscal 2001, we made 1,563 recommendations to improve the government's performance, dramatically exceeding our target of 975 and surpassing our fiscal 2000 results of

## GAO at Work

### Improving DOD Antiterrorism Efforts

At the request of the House Special Oversight Panel on Terrorism, GAO reviewed DOD's antiterrorism efforts at domestic installations. GAO identified shortcomings that needed to be addressed to provide installation commanders with the necessary information to effectively manage the risk of a terrorist attack and develop an effective anti-terrorism program. DOD agreed with GAO's findings and has begun implementing all of the GAO-recommended corrective actions. GAO also worked with DOD to update and improve antiterrorism standards and the secure communication capabilities between some Navy facilities. This work provided a foundation for developing a risk management approach that can be applied to other government operations. GAO presented information about this management approach to various congressional committees and other organizations.

### Strengthening Nuclear Nonproliferation and Safety Efforts

Preventing the spread of weapons of mass destruction and ensuring the safety of Soviet-designed reactors are important national security concerns. GAO's work in this area continues to have major impacts, including the implementation of GAO's recommendations designed to strengthen the Department of Energy's (DOE) program to secure nuclear materials in Russia and sustain the improvements. In addition, DOE has implemented GAO's recommendations to fund only those safety projects that directly improve the operation of Soviet-designed reactors and to focus its Nuclear Cities Initiative funding on only those projects designed to employ Russian weapons scientists. These changes will result in better targeting of limited resources by eliminating projects that did not meet mission goals.

### Improving Food Safety

Over the years public awareness of foodborne illness outbreaks has heightened concerns about the effectiveness of the federal system for ensuring the safety of the nation's food supply. GAO has served as an honest broker of information on the shortcomings of the federal food safety system. In particular, GAO's work has been used extensively in congressional deliberations and by federal program managers to improve the food safety system. For example, GAO's work on seafood safety identified several important weaknesses that compromised the overall effectiveness of the Food and Drug Administration's newly implemented science-based system for seafood. In response, the agency made improvements in 2001 to the science-based system. GAO's work identifying shortcomings in shellfish safety was instrumental in the 2001 adoption of the first national plan to reduce pathogenic bacteria in oysters.

1,224 recommendations made. This is more than a 58 percent increase over our fiscal 1998 results of 987 recommendations.

As with our other key indicators, adopting recommendations made as a measure of GAO's performance has increased our staff's attention on designing engagements to yield workable solutions as well as good information and analysis. But that alone does not explain the great increase in the number of recommendations GAO made in fiscal 2001. In our work on information security and on the accountability of federal financial statements—two areas we placed great emphasis on in recent years—we have found that highly specific recommendations best serve the agencies in question. As a result, products dealing with those issues contain unusually high numbers of recommendations.

We have not wanted this indicator to emphasize quantity over quality, however. Accordingly, one step we are taking to avoid this unintended effect is to set our targets for fiscal 2002 and 2003 at roughly our level of performance in fiscal 2000: 1,200 recommendations made a year. We believe that target continues to be a challenge but is not such a high number that it could encourage staff to seek simply more rather than better recommendations. Another step we are taking to avoid overemphasizing more rather than better recommendations is to introduce a new measure, the percentage of written products containing recommendations, which is explained below.

#### **Products with Recommendations**

The percentage of written products containing recommendations is a new measure of GAO's performance for fiscal 2002. To establish a baseline, we calculated our past performance on this measure and found that 44 percent of the written products we issued in fiscal 2001 contained recommendations, up from 39 percent in fiscal 2000 and an 11-percentage-point increase over fiscal 1998.

We are introducing this measure because, although we want our staff to seek solutions and make recommendations, the number of recommendations made is not necessarily a predictor of impact. A product with a single recommendation can help bring about a far-reaching improvement. Tracking what proportion of our written products offer recommendations as well as how many recommendations have been

made provides a more complete picture of the extent to which we are providing decision makers with solutions that will help to improve government.

The baseline data we gathered for this new measure show that GAO has already been increasing the proportion of written products that contain recommendations, in part because of the existing measures of the number of recommendations made and the percentage of recommendations implemented 4 years after they were made. Those measures helped to increase our staff's focus on providing workable solutions to the problems they uncover and thus increased the percentage of reports that contain recommendations.

Our initial target for this measure is for 45 percent of our written products issued in fiscal 2002 to contain recommendations. For fiscal 2003, the target is 50 percent. The target may remain at that level. We recognize our congressional clients' needs for products that are purely descriptive or analytical in nature and do not want this measure to make our staff any less dedicated to serving these needs.

#### **Testimonies**

In fiscal 2001, GAO's experts testified 151 times before the Congress, bearing out our forecast that we would have fewer than usual opportunities to testify. Our target, in fact, was 150 testimonies. We realized that as the year began, a combination of unusual external factors was likely to reduce the number of hearings the Congress would hold: Both a new Congress and a new administration were beginning work. The 2000 elections led to an extended transition for the new administration and for the 107<sup>th</sup> Congress as well. The change in majority party in the Senate and the many new committee chairs in the House were also likely to reduce the number of opportunities GAO witnesses had to present testimony.

Our target for fiscal 2002 of 200 testimonies again reflects external factors that may hold down the number of hearings below the levels in the late 1990s when we had opportunities to testify more often (256 times in fiscal 1998, for instance). The terrorist attacks on September 11 and the anthrax attacks in the months that followed changed the congressional agenda markedly and also disrupted the Congress's operations. That 2002 is also an election year for the House of Representatives and one third



of the Senate is also likely to reduce the number of hearings held. Our target for fiscal 2003 calls for us to give at least 210 testimonies.

### **Timeliness**

Timeliness measures the percentage of our products that were delivered on or before the date we agreed to with our congressional clients or estimated internally for the R&D work we do apart from congressionally requested engagements. In fiscal 2001, 95 percent of our products were delivered on time, falling short of our target of 100 percent on-time delivery and slightly below our fiscal 2000 rate of 96 percent. The results for this indicator have remained stable over the last 4 years.

Our commitment to delivering all of our products on time remains strong. We continue to work toward improving our timeliness by agreeing to delivery dates that are feasible and streamlining our processes to make issuing our work as efficient as possible. We have, however, set our fiscal 2002 and 2003 targets at 98 percent. The 100 percent target of previous years was idealistic in that it did not consider the external factors beyond GAO's control that sometimes cause delays in issuing products, such as problems gaining access to needed data, delays in receiving comments on our reports from the affected agencies, and unforeseeable events like the disruptions caused by the terrorist attacks on September 11 and the anthrax attacks that followed. We expect the 98 percent targets to be challenging to meet, but feasible.

### **Qualitative Performance Goals**

Our qualitative performance goals lay out the work we plan to do to achieve financial and other benefits. Tracking our progress in accomplishing these goals gives us an additional tool to use in holding ourselves accountable for the resources the Congress provides. For examples of work we did under these goals, please see the next page, and for additional examples, see appendix II.

In the strategic plan we published in 2000, we laid out multiyear performance goals to help us achieve our four overarching strategic goals. Initially, we expected to assess our performance after 3 years, that is, at the end of fiscal 2002. We subsequently opted to assess our performance at the end of fiscal 2001, so that we could bring the assessment cycle

into alignment with our 2-year strategic planning cycle. We will assess our progress on our qualitative performance goals every 2 years henceforth.

As of the end of fiscal 2001, we had met 84 (or 89 percent) of our 94 qualitative performance goals and had not met 10 (or 11 percent). The expedited assessment cycle was the most frequent reason for a goal's not having been met. In one case, a goal was not met because resources were reassigned to meet unanticipated priorities of congressional clients. The work under all of the unmet performance goals will be carried forward under performance goals for fiscal 2002 and 2003. See the Data Quality and Program Evaluation section for an explanation of how we assess our performance on our qualitative goals and appendix III for a goal-by-goal assessment of our performance.

For fiscal 2002 and 2003, we are establishing a new set of qualitative goals as part of our updated strategic plan, currently under review. In updating the plan for fiscal 2002, we increased the focus on national preparedness issues and made other changes to enhance the alignment between the plan and our organizational structure. The qualitative performance goals under review for fiscal 2002 and 2003 are listed in appendix IV. As this report goes to press, we are consulting with our congressional clients and other outside experts on our proposed update to our strategic plan for fiscal 2002 through 2007.

## GAO at Work

### **Creating a Focal Point for Combating Terrorism**

GAO identified fragmentation among federal efforts to combat terrorism as several key interagency functions were spread across various agencies and sometimes overlapped. During summer 2001, GAO recommended that the President appoint a single focal point within the Executive Office of the President to oversee the collective efforts of the many agencies involved. Soon after the formal release of GAO's related report in September 2001, the President announced the creation of the Office of Homeland Security within the Executive Office of the President. The Executive Order establishing the office provided it with many of the functions and responsibilities that GAO had advocated for improving interagency coordination.

### **Addressing Election Policy Issues**

In a series of reports, GAO provided the Congress with extensive analysis related to voter access and election reform. A March 2001 report analyzed the constitutional authority under which the Congress may legislate regarding federal and state elections and described current federal statutes. In other work, GAO conducted a 50-state review of state statutes, regulations, and policies on disabled access requirements and alternative voting methods. GAO also examined the challenges faced by military and overseas citizens who vote absentee. In response to GAO's recommendations, the Departments of Defense and State have pledged action to improve their voting assistance programs. Furthermore, the House and Senate Armed Services Committees have incorporated provisions in the fiscal 2002 DOD authorization bills to address weaknesses we identified in our report. Finally, in early fiscal 2002, we issued a cap-ping report that discusses (1) how the constitutional and operational division of federal and state authority to conduct elections has resulted in great variability in the ways elections are administered nationwide, (2) the main challenges election officials face in all major parts of the elections systems, and (3) basic criteria for assessing a range of election reform proposals. Our work was instrumental in enabling the House and Senate to develop election reform proposals.

### **Modernizing Medicare's Contracting of Claims Administration**

GAO's congressionally requested work on the contracting of Medicare's claims administration identified challenges for contracting reform, resulted in the administering agency's improved contract management, and pointed out potential benefits to removing restrictions and introducing competition to improve contractor performance. On December 4, 2001, the House passed legislation that would require competition and contractor performance standards for accuracy of payments and communications with providers, beneficiaries, and suppliers. Contracting reform legislation is currently pending in the Senate.

*Financial Information:***Agencywide**

GAO's financial statements for fiscal 2001 received an unqualified opinion from our independent auditor. No material weaknesses in internal control were identified, and the auditor reported substantial compliance with the requirements in the Federal Financial Management Improvement Act of 1996 (FFMIA) for financial systems. The auditor found no instances of noncompliance with the laws or regulations in the areas they tested. The statements and their accompanying notes, along with the auditor's report, appear later in this report. The table summarizes key data.

Compared with the statements of large and complex agencies in the executive branch, GAO's statements present a relatively simple picture of a small agency in the legislative branch that has most of its financial activity focused on the execution of its congressionally approved budget and most of its resources devoted to the human capital needed for its mission of supporting the Congress with information and analysis.

GAO's budget consists of an annual appropriation covering salaries and expenses and a building expenditure fund. For fiscal 2001, GAO's budget authority increased 1.7 percent from fiscal 2000. GAO's total assets were roughly \$123.5 million, consisting mostly of property and equipment (including the headquarters building, land, and improvements and computer equipment and software) and funds with the Treasury. The major change in our assets was in property and equipment (net), which decreased \$7.5 million as a result of annual depreciation. The total liabilities of roughly \$86.9 million were largely accrued annual leave and employee salaries and benefits as well as amounts owed to other government agencies and accounts payable.

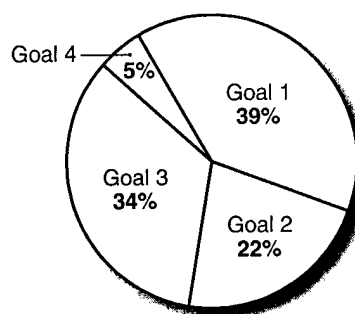
To align our net costs with our strategic plan, this year we are reporting net costs by strategic goal for the first time. As the figure indicates, our first goal, under which we organize our work on challenges to the well-being and financial security of the American people, accounted for the largest share of the costs. As a later section on our budget request for fiscal 2003 will show, we expect this goal to continue to represent the largest share of our costs.

**GAO's Financial Highlights: Resource Information**  
 Dollars in thousands

	Fiscal 2001	Fiscal 2000
Appropriations	\$384,020	\$377,561
Total available resources	\$392,943	\$390,653
Total outlays	\$387,200	\$384,096
Full-time equivalent employees	3,110	3,192
Net cost of operations		
Goal 1: Well-being/financial security of American people	\$161,112	\$153,448
Goal 2: Changing security threats/challenges of global interdependence	93,440	96,993
Goal 3: Results-oriented and accountable federal government	139,459	134,637
Goal 4: Maximize the value of GAO	20,695	19,760
Less reimbursable services not attributable to goals	(1,652)	(712)
Total	\$413,054	\$404,126

**Net Cost of Operations**

FY 2001 Total \$413.1 Million



Note: Total net costs include about \$1.7 million in reimbursable services not attributable to the goals.

**Limitation on Financial Statements**

Responsibility for the integrity and objectivity of the financial information presented in the financial statements in this report rests with GAO's managers. The statements were prepared to report GAO's financial position and results of operations, consistent with the requirements of the Chief Financial Officers Act as amended (31 U.S.C. 3515). The statements were prepared from GAO's financial records in accordance with the formats prescribed in the Office of Management and Budget's (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements. These financial statements differ from the financial reports used to monitor and control GAO's budgetary resources; however, both are prepared from the same financial records.

GAO's financial statements should be read with the understanding that, as an agency of a sovereign entity, the U.S. government, GAO cannot liquidate its liabilities (that is, pay its bills) without legislation that provides resources to do so. Although future appropriations to fund these liabilities are likely and anticipated, they are not certain.

Assisting the comptroller general in overseeing the effectiveness of GAO's financial operations is a three-member Audit Advisory Committee:

- *Sheldon S. Cohen* (chairman) is a certified public accountant and practicing attorney in Washington, D.C.; former commissioner and chief counsel of the Internal Revenue Service; and senior fellow of the National Academy of Public Administration.
- *Alan B. Levenson* is a practicing attorney in Washington, D.C., and a former senior official at the Securities and Exchange Commission.
- *Katherine D. Ortega* is a certified public accountant, former treasurer of the United States, former commissioner of the Copyright Royalty Tribunal, and a former member of the President's Advisory Committee on Small and Minority Business.

The committee's report for fiscal 2001 appears after our financial statements and accompanying notes.

*Performance and Targets:***Strategic Goal 1**

Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people by providing information and recommendations on

- the health needs of an aging and diverse population,
- a secure retirement for older Americans,
- the social safety net for Americans in need,
- an educated citizenry and a productive workforce,
- an effective system of justice,
- investment in community and economic development,
- responsible stewardship of natural resources and the environment, and
- a safe and efficient national physical infrastructure.

In keeping with our mission to support the Congress in carrying out its constitutional responsibilities, our first strategic goal focuses on several of the aspirations of the American people that were defined by the Founders:

to "establish justice, insure domestic tranquility,  
...promote the general welfare, secure the blessings  
of liberty to ourselves and our posterity..."

Our aging and increasingly diverse population, rapid technological change, and Americans' desire to improve the quality of life all have major policy and budgetary implications for the federal government. In particular, growing commitments to the elderly will challenge the capacity of a smaller generation of workers to finance the competing needs and wants brought to federal decision makers.

In fiscal year 2001, we exceeded three of our targets under our first strategic goal, as the table shows—those for other benefits, recommendations made, and testimonies given. We did not reach the two other targets:

- We achieved measurable financial benefits of about \$8.9 billion, falling short of our \$12.7 billion target for the year. The shortfall was caused by our decision to defer some sizable accomplishments as we reconsidered our methodology for tabulating financial benefits. As discussed previously, we instituted a new methodology effective October 1, 2001. The deferred accomplishments will be reported in next year's results.

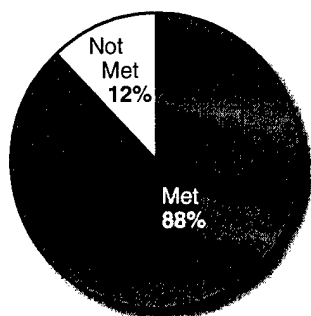
**Goal 1 Results and Targets**

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$10.8	\$13.8	\$14.1	\$12.7	\$8.9	\$17.0	\$22.8
Other benefits	177	140	182	196	210	218	218
Recommendations implemented	69%	72%	72%	75%	71%	75%	77%
Recommendations made	285	350	435	349	396	359	359
Testimonies	130	123	131	71	73	93	93

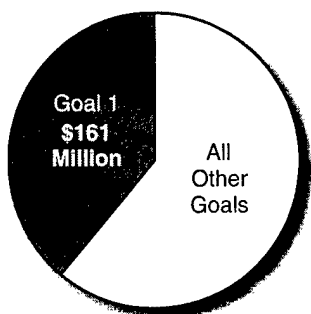
Note: Please see appendix I for full explanations of the data in this table and for 4-year averages.

**Qualitative Performance Goals**

42 Qualitative Performance Goals

**Net Cost of Operations**

FY 2001 Total \$413.1 Million



- The implementation rate for the recommendations we made to improve government operations was 71 percent, falling short of our 75 percent target. We have identified the three teams that have implementation rates for their goal 1 work that are low enough to hold down the goal's results, but we do not yet know all of the reasons for the low rates. To improve our performance, we are examining the nature of the recommendations being made under this goal and the process used to track their implementation. We expect to meet the 75 percent target in fiscal 2002.

Of the 42 qualitative goals, we met 37, meaning that we provided information or recommendations on those goals' key efforts, when viewed collectively, during fiscal 2000 and 2001. The primary reason that four of the goals were not met was, as explained previously, our decision to assess our performance after 2 years instead of 3. A fifth goal was not met

because we redirected resources to meet unanticipated congressional priorities. The work remaining to be done under those goals has been carried forward under our new performance goals for fiscal 2002 and 2003. For a detailed assessment of our performance on our qualitative goals for fiscal 2000 and 2001, see appendix III; for the new goals, see appendix IV.

For fiscal 2002, we have assigned 1,282 full-time equivalent personnel to this strategic goal, which we anticipate will again account for the largest share of our net costs (\$161 million—or 39 percent of the agency's total in fiscal 2001) because of the wide scope of work carried out under it.

For fiscal 2003, we are requesting 1,293 full-time equivalent personnel for the strategic goal. Given these resources, we plan to meet the following targets in fiscal 2003:

- \$22.8 billion in financial benefits—although seemingly high when compared with fiscal 2001's actual results, the target is appropriate given our new approach to reporting financial benefits;
- 218 actions taken on our findings and recommendations to improve government operations and services; and
- a 77 percent implementation rate for the recommendations we made 4 years ago—feasible, we believe, because of our efforts to improve the performance on this measure of particular teams under the goal.

In addition, we set targets of delivering 93 testimonies and making 359 recommendations and are proposing qualitative performance goals for fiscal 2002 and 2003 that reflect a more intense focus on security and preparedness issues. Some of those goals (listed in app. IV) have been reorganized. Performance goals dealing with social safety net issues, for instance, have been placed within our strategic objectives on work opportunities, health care, and natural resources (under which our work on agricultural programs, including food aid, is done) rather than being isolated under a separate strategic objective. And, whereas our previous plan grouped performance goals dealing with education and employment under one strategic objective, we are proposing separate objectives for them in the new plan.

## GAO at Work

In fiscal 2001, GAO contributed in many ways to the Congress's and the federal government's ability to address current and emerging challenges to the well-being and financial security of the American people. Some of the topics we testified on are listed below. A few of the tangible improvements our work produced are highlighted to the right.

- Air pollution
- Airline competition and federal assistance
- Alternative motor fuels
- Coast Guard investments
- Commercial fisheries
- Drug control
- Elections
- Energy prices and markets
- FBI oversight
- Food stamps
- Health care
- Housing
- Infrastructure
- Intellectual property
- Intercity passenger rail
- Medicare
- Milk prices
- Nuclear safety
- Pediatric drug research
- Postal Service transformation
- Prisoner releases
- Veterans' employment, training, and health care
- Welfare reform

### Protecting Patients in Mental Health Facilities

GAO pointed out the dangers to patients from the use of restraint and seclusion in mental health facilities; poor reporting of serious incidents; and the uneven protection afforded to patients in differing residential treatment settings. This work informed the Congress and set the stage for the passage of the Children's Health Act of 2000 (P.L. 106-310). The act specifies the circumstances in which restraint and seclusion can be used, requires facilities to notify the appropriate agency of restraint- or seclusion-related deaths, and requires facilities to train staff in the use of restraints and alternatives to them. In addition, the Centers for Medicare and Medicaid Services cited GAO's work in its regulations that established standards for the use of restraint or seclusion in psychiatric residential treatment facilities. The regulations require such facilities to inform state authorities of any deaths or serious injuries involving seclusion or restraint, as well as informing the Centers of any deaths.

### Reducing Nuclear Waste Treatment Costs

Starting in 1996, through a series of reports and testimonies, GAO questioned the reasonableness of DOE's "privatized" approach to treating liquid high-level radioactive wastes at its Hanford, Washington, site. Under this approach, financing and constructing treatment facilities would have cost at least \$8 billion. In June 2000, GAO reported that DOE's privatized approach had not been successful for other complex cleanup projects and suggested that DOE reassess the cost effectiveness of this approach at Hanford, including analyzing different contracting and financing alternatives. Subsequently, DOE terminated its privatized contract because of dramatic cost growth and contractor performance problems. Consistent with GAO's suggestions, DOE assessed alternative contracting and financing strategies and awarded a new contract in December 2000. It expects to save about \$1.3 billion in fiscal 2001 and 2002 and expects additional savings in future years.

### Controlling Pollution

GAO's work on pollution control issues has resulted in both tangible program impacts and significant budgetary savings. For example, in a series of reports and testimonies, GAO documented serious deficiencies in states' water quality monitoring programs and recommended that the Environmental Protection Agency (EPA) improve the information collected on water quality conditions across the country. EPA and the Congress have since responded with steps designed to improve the quality and consistency of state monitoring programs. Taken together, these actions are expected to improve the prospects that the right waters will be targeted for cleanup, saving millions of dollars and ensuring that scarce resources are applied where they are most needed. In another example, GAO recommended reduced appropriations across an array of environmental programs, including the agency's Climate Technology Initiative, Clean Air Partnership Fund, and the Great Lakes Cleanup Grants. As a result, over \$400 million in savings was achieved without compromising important environmental objectives.

*Performance and Targets:***Strategic Goal 2**

Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence by providing information and recommendations on

- responding to diffuse threats to national and global security,
- ensuring military capabilities and readiness,
- advancing and protecting U.S. international interests, and
- responding to the impact of global market forces on U.S. economic and security interests.

As the world grows increasingly interconnected through more open markets and rapidly developing technology, the United States is facing threats to its security and economy from sources that range from terrorism to regional conflicts to instability sparked by adverse economic conditions, corruption, ethnic hatreds, nationalism, and disease. At the same time, the end of the cold war and the globalization of markets have created new opportunities for the nation as a whole and for American producers and consumers.

While seeking to anticipate and address diffuse threats to the nation's security and economy, the federal government also tries to promote foreign policy goals, sound trade policies, and other strategies to advance the interests of the United States and those of U.S. trading partners and allies in every corner of the world. In light of the globalization, technology, and security trends identified in our strategic plan, the second goal is to help the Congress and the federal government respond to changing security threats and the challenges of global interdependence.

In fiscal 2001, we exceeded four of our targets under our second strategic goal, sometimes dramatically, and narrowly missed a fifth, as the table shows. Financial benefits were nearly double the targeted amount because of the \$6 billion in benefits achieved by decision makers who used our analyses of options for military base realignments and closures in their efforts to reduce the costs to DOD from maintaining facilities and functions primarily geared to the cold war era. The implementation rate for the recommendations we made to improve government operations was 81 percent, well above the target primarily because our staff followed up and reported on defense recommendations more diligently than in the past. We recorded more than twice as many new recommendations as called for by the target because the reports we issued on information security contained many specific recommendations to particular agencies.

**Goal 2 Results and Targets**

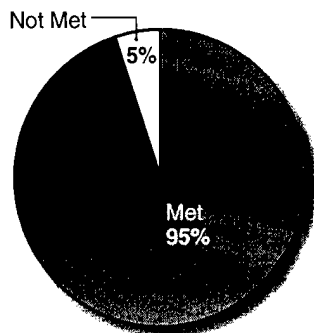
Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$5.8	\$3.0	\$5.5	\$5.1	\$10.5	\$7.8	\$7.6
Other benefits	73	80	129	162	188	178	192
Recommendations implemented	76%	65%	84%	75%	81%	75%	77%
Recommendations made	242	255	376	283	618	460	485
Testimonies	45	37	56	36	34	49	55

Note: Please see appendix I for full explanations of the data in this table and for 4-year averages.

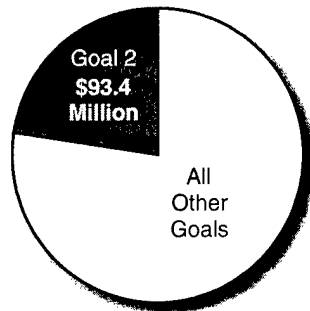


**Qualitative Performance Goals**

20 Qualitative Performance Goals

**Net Cost of Operations**

FY 2001 Total \$413.1 Million



The one target that was not met was that for testimonies: We testified 34 times before the Congress rather than 36 times. The performance target was set at an approximate level, and the deviation from that level was slight. There was no effect on GAO's overall performance.

Of the 20 qualitative performance goals, we met 19, meaning that we provided information or recommendations on those goals' key efforts, when viewed collectively, during fiscal 2000 and 2001. The reason that one of the goals was not met was, as previously explained, our decision to assess our performance after 2 years instead of 3. The work remaining to be done under that goal has been carried forward under our new performance goals for fiscal 2002 and 2003. For a detailed assessment of our performance on our qualitative goals for fiscal 2000 and 2001, see appendix III; for the new goals, see appendix IV.

For fiscal 2002, we have assigned 878 full-time equivalent personnel to this strategic goal, which we anticipate will again account for roughly a quarter of our net costs (\$93.4 million—or 22 percent of the agency's total in fiscal 2001).

For fiscal 2003, we are requesting 884 full-time equivalent personnel for the strategic goal. Given these resources, we plan to meet targets in fiscal 2003 that call for, among other things, \$7.6 billion in financial benefits and 192 actions taken on our findings and recommendations to improve government operations and services. We are proposing qualitative performance goals for fiscal 2002 and 2003 that reflect a more intense focus on security and preparedness issues (see app. IV).

## GAO at Work

In fiscal 2001, GAO contributed in many ways to the Congress's and the federal government's ability to respond to changing security threats and the challenges of global interdependence. Some of the topics we testified on are listed below. A few of the tangible improvements our work produced are highlighted to the right.

- A-76 competitive sourcing program
- Anthrax vaccine
- Aviation security
- Cannibalizing military aircraft
- Combating terrorism
- Computer security
- Debt relief
- Defense infrastructure
- Defense maintenance
- Democracy programs
- Export controls
- F-22 fighter aircraft production
- Free Trade Area of the Americas
- Homeland security
- International disaster assistance
- Military base closures
- Nuclear nonproliferation
- Peacekeeping operations

### Informing the Debate Over Aviation Security

Improving the screening of airline passengers and their baggage moved to the top of the national agenda following the September 11, 2001, terrorist attacks. Building upon a considerable body of work on aviation security completed in recent years, GAO delivered four testimonies and two statements for the record during the 2 weeks following the attacks. These efforts, as well as discussions with the Congress since the hearings, helped bring into focus the root problems with our nation's aviation security system and, in particular, the screening process. Subsequently, the Congress passed legislation that addressed the screening concerns GAO identified. In earlier work, GAO had recommended that the Federal Aviation Administration (FAA) consider pursuing procedures common in other countries, such as limiting access to ticketed passengers, placing armed police at checkpoints, and placing armed militia throughout airports. FAA has begun adopting some of these security screening strategies and procedures.

### Improving Accountability Over Defense Inventory

In response to various congressional requests, GAO issued several reports on DOD's inventory management practices that resulted in significant management improvements, financial savings, and enhanced congressional oversight. GAO identified key factors causing parts shortages for military weapon systems and the adverse impact these shortages were having on mission performance, morale of military personnel, and actions DOD is taking to address these problems. The work also resulted in recommendations to improve quality deficiency reporting for parts purchased or repaired. Related work further showed that DOD was not effectively tracking the use of funds earmarked for reducing spare part shortages and recommended actions for improving oversight of such funds. GAO also recommended actions to improve the accountability over defense inventory that was being shipped from contractor or DOD facilities. GAO's work showed that these items, which were cumulatively valued at billions of dollars, were often vulnerable to theft and undetected loss. This work resulted in savings of about \$1.8 billion. Further recommendations were made to improve the accountability over items containing sensitive military technology that were being disposed. Lastly, GAO made recommendations to improve the practices for determining when to retain or dispose of DOD's multibillion-dollar inventory of spare parts.

### Strengthening Federal Information Security

Numerous federal agencies implemented improvements based on GAO recommendations to better protect the integrity, confidentiality, and availability of their critical computer-supported operations. Improvements stemming from prior years' and recent follow-up work included actions by the Departments of Defense, the Treasury, and Veterans Affairs and by the Environmental Protection Agency. Also, audits issued during fiscal 2001 prompted newly initiated actions at the Departments of Interior, Commerce, and Education. Improvements included strengthening access controls, developing and testing service continuity plans, and implementing management processes for ensuring that security controls appropriately address current threats and operate as intended. In addition, GAO reports and testimonies facilitated congressional oversight by highlighting significant vulnerabilities in critical federal systems and providing detailed information on new viruses and other cyber-related events.

*Performance and Targets:***Strategic Goal 3**

Support the transition to a more results-oriented and accountable federal government by

- analyzing the federal government's long-term and near-term fiscal position, outlook, and options;
- strengthening approaches for financing the government and determining accountability for the use of taxpayer dollars;
- facilitating governmentwide management and institutional reforms needed to build and sustain high-performing organizations and more effective government; and
- recommending economy, efficiency, and effectiveness improvements in federal agency programs.

As the 21<sup>st</sup> century begins, Americans are increasingly demanding improved government services and better stewardship of public resources. The federal government is adopting the principles of performance-based management in an effort to address these demands. This approach to managing government integrates thinking about organizational struc-

ture; strategies for delivering programs and services; and the use of technology, reliable financial information, and effective human capital strategies into decisions about the results the government intends to achieve.

Many initiatives under way across government to improve operations and strengthen accountability are being driven by management reforms statutorily established by the Congress in the 1990s. Yet the reforms did not encompass all areas of government management, in particular, strategic planning for and management of human capital at a governmentwide level.

The reforms that have been adopted have profound implications for the way government delivers products and services, for the way it is organized, and for the way it performs. As a result, government decision makers and managers are adopting new ways of thinking, considering different ways of achieving goals, and using new information to guide decisions. At the same time, with the federal budget sliding from surplus to deficit, the U.S. government faces a new set of challenges, in both the long and near terms, in making spending decisions. Consequently, we established a strategic goal of supporting the transition to a more results-oriented and accountable government in the new environment.

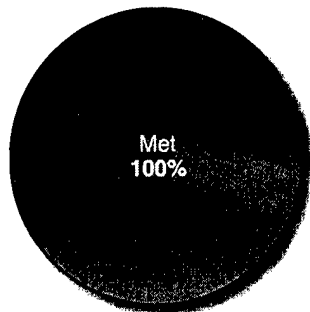
**Goal 3 Results and Targets**

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$4.6	\$4.5	\$5.1	\$5.3	\$7.0	\$5.3	\$4.6
Other benefits	311	414	503	342	401	374	375
Recommendations implemented	65%	78%	77%	75%	85%	75%	77%
Recommendations made	460	335	413	343	549	381	356
Testimonies	96	100	105	43	42	58	62

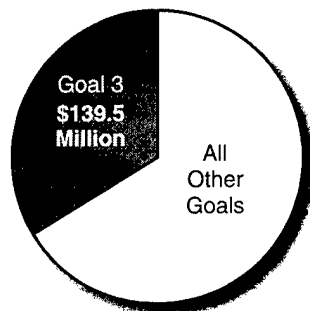
Note: Please see appendix I for full explanations of the data in this table and for 4-year averages.

**Qualitative Performance Goals**

15 Qualitative Performance Goals

**Net Cost of Operations**

FY 2001 Total \$413.1 Million



In fiscal 2001, we exceeded four of the performance targets under our third strategic goal as the table at the start of this section shows, and narrowly missed a fifth. The results under other benefits, recommendations implemented, and recommendations made were particularly high because of the large number of very specific recommendations in reports on information technology and financial management issues. We missed the target for testimonies by one. The target was set at an approximate level, and the deviation from that level was slight. There was no effect on GAO's overall performance.

We met all 15 of the qualitative performance goals, meaning that we provided information or recommendations on those goals' key efforts, when viewed collectively, during fiscal 2000 and 2001. For a detailed assessment of our performance on these goals, see appendix III.

For fiscal 2002, we have assigned 941 full-time equivalent personnel to this strategic goal, which we anticipate will again account for the second largest share of our net costs (\$139.5 million—or 34 percent of the agency's total in fiscal 2001).

For fiscal 2003, we are requesting 948 full-time equivalent personnel for the strategic goal. Given these resources, we plan to meet the performance targets in fiscal 2003 that call for, among other things, \$4.6 billion in financial benefits and 375 actions taken on our findings and recommendations to improve government operations and services. We are proposing qualitative performance goals for fiscal 2002 and 2003 that reflect a more intense focus on security and preparedness and on the role of the government and how it does business in the 21<sup>st</sup> century; see appendix IV for the goals.

## GAO at Work

In fiscal 2001, GAO contributed in many ways to the federal government's transition to being more results oriented and more accountable. Some of the topics we testified on are listed below. A few of the tangible improvements our work produced are highlighted to the right.

- Alternative minimum tax
- Contracting for services
- Controls over federal payments
- District of Columbia reforms
- Electronic government
- Federal budget issues
- Federal rulemaking requirements
- Federal telecommunications services
- Financial statement reliability
- Human capital
- Implementation of the Government Performance and Results Act
- Information security
- Information technology workforce
- Intergovernmental fiscal issues
- IRS modernization
- Presidential transition
- Reusable launch vehicles
- Tax filing season

### Improving Collection of Nontax Debt

GAO has continued to report on the government's serious collection problems with nontax debt—debt, other than taxes, that is owed to the federal government. GAO promoted centralizing the offset of delinquent debt against federal payments prior to the enactment of the Debt Collection Improvement Act of 1996. GAO was also instrumental in the successful merging of the tax refund and administrative offset programs, now better known as the Treasury Offset Program. Since the program's inception in January 1999 and through July 2001, collections of federal nontax debt from tax refund offsets have increased by \$931 million, including \$677 million during fiscal 1999 and 2000.

### Focusing Attention on Major Management Challenges and High-Risk Issues

In its 2001 *Performance and Accountability Series and High-Risk Update*, GAO identified almost 100 major management challenges and program risks at 21 federal agencies and 22 high-risk areas. GAO also highlighted the actions needed to address these serious problems. New to the high-risk list were the Postal Service's transformational efforts and long-term outlook, and strategic human capital management, a pervasive challenge across the federal government. Congressional leaders, who have historically referred extensively to the series in framing oversight hearing agendas, have strongly urged the administration and individual agencies to develop specific performance goals to address these pervasive problems. In addition, the president's recently issued management agenda for reforming the federal government mirrors many of the issues that GAO has focused and reported on in these series, including a governmentwide initiative to focus on strategic management of human capital.

### Identifying Strategies for a More Cost-Effective Census

In a series of congressionally requested reports over the last year, GAO examined the lessons learned from the 2000 Census. GAO identified financial savings and best practices that could help improve the planning and conduct of the next national account in 2010. For example, GAO's recommendations for improving the methods the Bureau of the Census used for calculating the productivity of census enumerators provided the Congress and the bureau with better data for future planning and budgeting decisions. Likewise, GAO's work on the bureau's program for partnering with local governments and nonprofits prompted the bureau to implement improvements to make this key promotion and outreach effort more accountable and performance oriented. In addition, GAO's review of certain assumptions behind the bureau's fiscal 2000 budget alerted the Congress to the availability of unobligated funds. Subsequent action taken by the bureau and House and Senate Appropriations Committees led to financial savings of \$360 million.

*Performance and Targets:***Strategic Goal 4**

Maximize the value of GAO by being a model organization for the federal government through

- cultivating and fostering effective congressional and agency relations,
- implementing a model strategic and annual planning and reporting process,
- aligning human capital policies and practices to support GAO's mission,
- developing efficient and responsive business processes, and
- building an integrated and reliable information technology infrastructure.

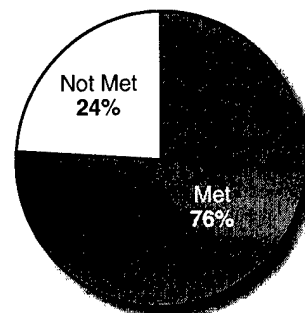
To carry out our responsibilities to the Congress and the American people successfully, GAO must be perceived as credible and must lead by example. Our fourth strategic goal provides the framework for enhancing and sustaining our organization's credibility. The areas in which GAO is addressing management challenges all fall under this goal: human capital, information technology, and security. Please see the special section on management challenges later in this report for additional details.

The quantitative measures used to assess our performance on our external strategic goals (goals 1 through 3) are not applicable to this internal strategic goal, but qualitative performance goals do apply. Of the 17 internal qualitative performance goals, we met 13 during fiscal 2000 and 2001. The primary reason that four of the goals were not met was the decision to assess our performance after 2 years instead of 3. The work remaining to be done under those goals has been carried forward under our new performance goals for fiscal 2002 and 2003. For a detailed assessment of our performance on our qualitative goals for fiscal 2000 and 2001, see appendix III; for the new goals, see appendix IV.

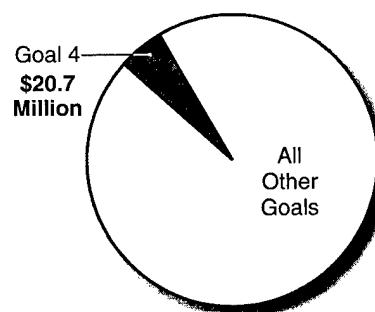
For fiscal 2002, we have assigned 168 full-time equivalent personnel to this strategic goal, which we anticipate will again account for the smallest share of our net costs (\$20.7 million—or 5 percent of the agency's total in fiscal 2001). For fiscal 2003, we are requesting 144 full-time equivalent personnel for the strategic goal.

**Qualitative Performance Goals**

17 Qualitative Performance Goals

**Net Cost of Operations**

FY 2001 Total \$413.1 Million



## GAO at Work

In fiscal 2001, GAO's efforts to maximize the value of the agency by being a model organization for the federal government produced tangible results as these examples illustrate.

### **Strengthening Relationships with GAO's Clients and Stakeholders**

In fiscal 2001, GAO implemented a set of congressional protocols—policies and procedures to guide interactions with the Congress and to ensure GAO's accountability to the Congress. Responding to client requests, GAO and the Congressional Budget Office developed materials on legislative branch services for new members of the Congress and their staff. GAO also expanded and improved access to information for our congressional clients through a Web-accessible active assignments list. To assist in the congressional and presidential transitions, GAO worked with OMB and Cabinet-level officials to provide new legislators and officials with information about the challenges facing them; much of the information about GAO's work was made available on a transition Web site. GAO continued our efforts to work across boundaries and encourage knowledge sharing by networking through various boards and panels, including the Comptroller General's Advisory Board, the Educators' Advisory Board, the Accountability Advisory Board, and the global and domestic working groups of accountability organizations.

### **Aligning GAO's Resources with Our Strategic Goals**

To enhance our ability to achieve the goals and objectives of our strategic plan, GAO completed a major organizational realignment in fiscal year 2001. The realignment provides for a clearer and more transparent delineation of responsibilities for achieving strategic goals and in meeting the needs of the Congress. In addition, the realignment centralized certain administrative support services to more efficiently provide human capital, report production and publishing, budget and financial management, information systems desk-side support, security and safety, property management, copying and reproduction services, supplies, and mail to agency staff. The centralization will allow GAO to effectively devote more resources to our mission work and obtain economies of scale by providing central and shared services.

### **Aligning Human Capital Policies and Practices to Support GAO's Mission**

We have made significant progress toward reshaping GAO's human capital profile to better support the agency's mission. In fiscal 2001, under new personnel management authorities provided by human capital legislation enacted in 2000, GAO offered qualified staff opportunities for early retirement and hired several senior-level specialists. GAO also instituted new recruiting strategies to bring in diverse, high-caliber staff with the skills needed to meet GAO's strategic goals, particularly as senior GAO staff begin to retire in increasing numbers. As part of GAO's overall workforce planning, we also developed an inventory of staff knowledge and skills that was used in conjunction with an employee preference survey to realign staff to better meet our strategic goals. Finally, GAO completed the development of a new performance appraisal system, to be implemented in 2002, based on the strategic plan and needed competencies; new training and professional development programs are being developed to support these competencies.

## *Strategies and Challenges — Achieving Our Goals*

The Government Performance and Results Act directs agencies to articulate not just goals, but also strategies for achieving those goals. As discussed in this section, our strategies emphasize the importance of working with other organizations on cross-cutting issues and to mitigate challenges to achieving our agency's goals, that is, the internal and external factors that could impair performance.

### *Strategies for Achieving Our Goals and Coordinating with Others*

For GAO, achieving our goals and objectives rests, for the most part, on providing professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced information. We develop and present this information in a number of ways to support the Congress, including the following:

- evaluations of federal policies and the performance of agencies;
- oversight of government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- investigations to assess whether illegal or improper activities are occurring;
- analyses of the financing for government activities;
- constructive engagements in which we work proactively with agencies, when appropriate, to help guide their efforts toward positive results;
- legal opinions to determine whether agencies are in compliance with applicable laws and regulations;
- policy analyses to assess needed actions and the implications of proposed actions; and
- additional assistance to the Congress in support of its oversight and decision-making responsibilities.

The qualitative performance goals listed in appendix IV lay out the work we plan to do in fiscal 2002 and 2003.

GAO builds strategic working relationships with other national and international government accountability and professional organizations to broaden and leverage our institutional knowledge and experience, and in turn, to improve our service to the Congress and the American public. The relationships focus on (1) using advisory panels and other bodies to inform GAO's strategic and annual work planning and (2) initiating and supporting collaborative national and international audit, technical assistance, and other knowledge-sharing efforts. GAO's External Liaison office provides the leadership, strategic focus, and administrative support for working with crosscutting organizations while GAO's audit teams provide the leadership for working with most issue-specific organizations.

### *Planning with Others*

A number of advisory boards and panels support GAO's strategic and annual performance planning. For example, GAO works actively with the Comptroller General's Advisory Board, which includes more than 40 members from the public and private sectors whose areas of expertise mirror GAO's strategic objectives. GAO meets with the board once a year and works with individual members throughout the year on our strategic objectives and initiatives, including, for example, future work GAO should conduct on counterterrorism issues. In addition, GAO uses the National Intergovernmental Audit Forum chaired by the comptroller general, 10 regional intergovernmental audit forums, and other means to consult regularly with federal inspectors general and state and local auditors on GAO's strategic and annual work plans. For example, the comptroller general plans to consult with the domestic working group—which includes about 18 federal, state, and local auditors—on ways that the intergovernmental audit community might best address counterterrorism issues.

We also work with a number of issue-specific and technical panels to improve our strategic and annual planning. For example, we meet periodically with our Accountability Advisory Council to obtain advice on vital and emerging issues pertaining to financial



management and accountability reporting, with our Executive Council on Information Management and Technology to obtain advice on critical information management issues, with our K-12 Advisory Panel to obtain advice on elementary and secondary education issues, with our Advisory Council on Government Auditing Standards to obtain advice and guidance on promulgating auditing standards, and with our Educators' Advisory Panel to identify the best practices for recruiting and developing GAO's staff.

In the international area, GAO participates actively in the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of about 180 national audit offices from around the world. At the 17<sup>th</sup> International Congress of Supreme Audit Institutions in Seoul, Korea, in October 2001, the comptroller general chaired an overall theme on ways to strengthen the role of supreme audit institutions in administrative and government reform efforts and agreed to chair a 10-country task force charged with developing a strategic planning framework for INTOSAI. The comptroller general is a member of the INTOSAI Governing Board and also participates each year in an informal global working group, in which the heads of GAO's counterparts from the G-7 and other selected countries meet to discuss strategic plans and issues of mutual concern.

### *Collaborating with Others*

GAO collaborates on crosscutting issues with numerous organizations to strengthen professional standards, provide technical assistance, leverage resources, and develop best practices. For example, in response to a statutory mandate, the comptroller general convened the Commercial Activities Panel to review the government's policies and procedures for deciding whether commercially available services should be performed by federal employees or by the private sector. The panel, which includes senior leaders from government agencies, federal labor unions, contractor groups, and academia, will develop a set of principles to guide agencies' sourcing decisions and make related recommendations.

GAO has long collaborated with others in carrying out its leadership role in the area of financial management. GAO works closely with OMB, Treasury, the inspector general community, and others in developing federal accounting standards and preparing and auditing the U.S. government's financial statements, including the development and issuance of guidance on the form and content of the financial statements and the methodologies for conducting the audits. In July 2001, GAO and the President's Council on Integrity and Efficiency jointly issued a Financial Audit Manual for performing financial statement audits of federal entities. The manual provides common methodologies and ground rules for conducting these audits and will improve consistency among agencies' audits. Furthermore, GAO sets the internal control standards and the auditing standards for government and provides technical advice, training, and other outreach to the governmental community to ensure that the standards are understood and accepted.

As chair of the Joint Financial Management Improvement Program (JFMIP), the comptroller general initiated a series of sessions at which the JFMIP principals (the comptroller general, the secretary of the Treasury, the director of the Office of Management and Budget, and the director of the Office of Personnel Management) discussed pressing governmentwide financial management issues. These summits were the first time the JFMIP principals had gathered in 10 years. Their deliberations and agreements focused on key issues such as restructuring the Federal Accounting Standards Advisory Board to allow more input from the public, establishing audit committees for the major federal agencies, defining success measures for financial management that go beyond an unqualified audit opinion on financial statements, addressing the impediments to an audit opinion on the U.S. government's consolidated financial statements, accelerating financial statement reporting, reporting social insurance financial information, and promoting improved financial management systems and human capital practices. Through this initiative, the JFMIP principals have reinvigorated efforts to improve financial management across government. They will continue to review and monitor strategies critical to the full and successful implementation of existing statutes on federal financial management reform.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Other examples of GAO's collaborative activities include the following:

- Several GAO teams are working collaboratively with the Private Sector Council. For example, GAO's Financial Management and Assurance team worked with the council to develop an executive guide on strategies to manage improper payments, and GAO's Education, Workforce, and Income Security team is working with the council to identify effective practices for safeguarding social security numbers.
- GAO's Information Technology team is working with state auditors on several joint information security initiatives, including the joint development and issuance of a management planning guide for information systems security auditing.
- GAO's Education, Workforce, and Income Security team is working with the Department of Education's inspector general, the state auditors of Pennsylvania and Texas, and the auditor of the city of Philadelphia on improving basic programs operated by local education agencies.
- GAO's Physical Infrastructure team is working with the Department of Transportation's inspector general and Louisiana's state auditor on issues pertaining to highway construction oversight and transportation security.
- GAO's Health Care team helped to strengthen program evaluation in the military by contributing to a senior management-training program at the Department of the Air Force.
- GAO's Applied Research and Methods team continuously assists other agencies in improving their analytical capabilities by reviewing their information development activities and helping them develop methodologies. The team also fosters knowledge transfer in the professional and federal evaluation communities.
- GAO's Strategic Issues team worked with the National Conference of State Legislatures on spending issues pertaining to settlements with tobacco companies and programs for low-income families under welfare reform.
- GAO's Office of Special Investigations is working with the Pennsylvania Department of State on potential telemarketing fraud in multistate charities.
- GAO's Financial Markets and Community Investment team worked with Tennessee's state auditor to identify weaknesses in regulatory oversight and supervision of insurance companies, reducing systemic risk and the possibility that the federal government would be called on to assist states in the event of insurer insolvencies.
- GAO's International Affairs and Trade team assisted the International Monetary Fund in setting up an independent evaluation office.
- GAO's External Liaison office developed a best practices section on GAO's public Web site ([www.gao.gov/bestpractices/](http://www.gao.gov/bestpractices/)) for other organizations to use in performing their accountability work.

As mentioned previously, we use our work with INTOSAI to better inform our strategic and annual planning processes, but we also collaborate with INTOSAI on crosscutting issues. The comptroller general is a member of INTOSAI's board of governors and, along with senior GAO staff, a member of a number of INTOSAI committees. GAO publishes the quarterly international journal for INTOSAI and administers an international fellowship program. We have agreed to participate in an INTOSAI initiative on preventing and detecting international money laundering and have completed work on a set of protocols to help guide our international work.

GAO also participates in a number of specific joint ventures with the audit offices of other nations. For example, our International Affairs and Trade team plans to work with GAO's Russian counterpart on a cooperative review of U.S. assistance to Russia for eliminating chemical weapons. And our Natural Resources and Environment team is, in coordination with Canada's auditor general, reviewing efforts to prevent and control the harmful effects—such as crop destruction and ship damage—that can result from the introduction of invasive species. This work will specifically highlight problems in the Great Lakes and other U.S. – Canada boundary waters.

## *Addressing Management Challenges That Could Affect Our Performance*

Two of the management challenges that may affect GAO's performance in fiscal 2003—human capital and information technology issues—were identified in our previous performance and accountability report. We have made progress in addressing these issues but continue to view them as significant challenges. In light of the far-reaching effects of the September 11 terrorist attacks, we are adding a third management challenge: ensuring the security and safety of our people, information, facilities, and other key assets. If GAO is to gain widespread recognition as a world-class professional services organization, each of these areas—human capital, information technology, and security and safety—is critical.

After a decade of downsizing and curtailed investments in human capital, it became increasingly clear that GAO needed new human capital strategies if the agency is to meet the current and emerging needs of the Congress and the nation's citizens. We have made good progress with our human capital challenges but have more work to do during fiscal 2002 and 2003 in the areas of recruiting, hiring, training, and performance appraisal.

- We have begun implementing some of the new personnel management authorities provided to GAO under the human capital legislation enacted in October 2000. After developing policies for the new voluntary early retirement authority, we gave qualifying staff an opportunity in late fiscal 2001 to apply for early retirement. In addition, we established the senior-level positions authorized by the legislation and hired several individuals. Other provisions and policies for reductions-in-force and voluntary separation incentive payments remain to be addressed. The required annual report to the Congress on our implementation of the legislation is in appendix V.
- We have revised our recruiting and hiring strategy and were very successful in hiring diverse, high-caliber staff with the skills and abilities GAO needs to achieve our strategic goals and objectives. The hiring of these new staff has contributed to addressing the succession planning, structural, and skill imbalance issues facing the agency. We

plan to refine our recruitment and hiring programs to target staffing gaps identified through our workforce planning efforts, including the significant percentage of our workforce becoming eligible for retirement. Also, to enhance our recruitment and retention incentives, we will be offering a student loan repayment program and mass transit subsidies and plan to explore other means to attract and retain high-caliber and skilled staff.

- We have expanded training opportunities for our senior executives and are planning to revitalize training and professional development programs for all our staff, particularly at the entry level. In addition, we plan to develop a core curriculum for our managers and staff, focusing on understanding the congressional environment and achieving excellence in performance.
- We have developed, and in January 2002 began implementing, a new competency-based performance appraisal system for our analyst and specialist staff. The system links performance standards to our strategic plan, core values, and skill competencies to achieve results. We plan to develop a similar performance system for our attorneys and mission support employees.
- We have constructed and analyzed a detailed workforce profile and developed a workforce-planning model to ensure that GAO hires, retains, or contracts for the appropriate number of staff with the competencies needed to achieve our mission. We also plan to continue developing a human capital strategic plan to support our strategic goals and to ensure that diversity, skills, leadership, and retention issues are addressed.

As with human capital, information technology (IT) investments at GAO were significantly reduced during the mid- to late 1990s as a result of mandated spending reductions. Consequently, information technology became a management challenge as we entered the 21<sup>st</sup> century. As at other organizations, the role of IT has become an increasingly vital one in our efforts to meet our goals and objectives for client service, strategic planning, human capital, and business processes. When used well, IT makes new services and product lines possible, significantly reduces process time and costs, enhances the quality and responsiveness of services and products, and makes information and services more accessible. Identifying and implementing new technologies are

## MANAGEMENT'S DISCUSSION AND ANALYSIS

essential to GAO's continued efforts to provide efficient and effective services. We have made progress in building an integrated and reliable IT infrastructure that supports the achievement of our goals and objectives, but we must sustain these efforts and begin others to ensure that GAO can continue to provide quality, timely, efficient, and effective services to the Congress and the public.

- We have upgraded our network operating system and are in the process of upgrading, agencywide, our desktop operating system and applications as well as our workstations, which have reached the end of their useful life.
- We have completed a comprehensive review of our IT and have assessed the adaptability of our current architecture to changes in GAO's organization and business processes. We have also made progress with developing an enterprise information architecture, including a concept of operations, that provides an integrated view of GAO's business processes; we will continue refining and updating this architecture. In addition, a committee has been formed to guide the direction of GAO's IT investment policies, processes, and portfolio and to link our investment decisions to the agency's strategic direction. We also prepared an IT plan for fiscal 2001 through 2004 to provide a foundation for initiatives and investments and to ensure a secure IT environment; we will refine this plan and keep it up to date.
- We have expanded and improved congressional and public access to our reports and other information resources. For example, we have provided our congressional clients with a Web-based active assignments list to keep them abreast of GAO's ongoing work and have enhanced our public Web site to make it easier to find and access our products electronically. We plan to conduct a usability study to help us enhance our public Web site and to develop training initiatives for our staff to improve their use of Web-based knowledge services.
- We have expanded and accelerated our efforts to protect the agency's information assets. We have installed intrusion detection software to monitor and thwart attempts to hack into GAO's network, implemented an awareness program to promote security policies and practices, and developed a

disaster recovery strategy and draft plan to ensure the continued operation of GAO's essential computer systems should a disaster occur. We also intend to establish backup IT capability at a remote facility.

- We have also upgraded our remote access capability, improving the speed and reliability of dial-up connections to GAO's facilities; completed communications upgrades to the field to provide high-speed, reliable connections to GAO's network; replaced our aging videoconferencing equipment with equipment that provides enhanced capabilities and is more user friendly; and begun planning for future communications upgrades to support evolving video capabilities. We plan to continue these efforts and to deploy new technologies agencywide.
- We have initiated efforts to replace our aging management information systems and our administrative systems with Web-based systems using a common database. We have begun collecting requirements and mapping business processes in our effort to redesign our system for managing and tracking GAO's work. We have efforts under way to implement an automated travel manager system and to procure a new online recruitment system and a Web-based time and attendance system. These systems will eliminate largely paper-based processes and reduce the administrative burden on staff. We are also completing requirements work and entering the development phase of a management information system that will support GAO's new competency-based performance management program. The recruitment, time and attendance, and performance management systems are components of what, over time, will become a new human capital management system.

The safety and security of GAO's people, information, and assets are necessarily a top priority for GAO. In the aftermath of the September 11 terrorist attacks and the subsequent anthrax incidents, we designated safety and security a management challenge for our agency. We are conducting threat assessments and a comprehensive evaluation of security that we plan to complete in early 2002. Guided by these assessments, we will develop an implementation plan to strengthen security and safety within GAO. We also plan to review and update our emergency preparedness and response

plan and develop a continuity of operations plan so that we are prepared for, can respond to, and will recover from any major threat or crisis.

At GAO, management challenges are identified by the comptroller general and the agency's senior executives through the agency's strategic planning, management, and budgeting processes. Our progress in addressing the challenges is monitored through our annual performance and accountability process. We seek the resources to meet these challenges in our budget request to our appropriations committees.

### *Mitigating External Factors That Could Affect Our Performance*

Several external factors could affect the achievement of our performance goals, including national and international upheavals, the resources we receive, and limitations imposed on our work by other organizations or limitations on the ability of other federal agencies to make the improvements we recommend. For example, as the Congress focuses on unpredictable events, such as the global threat posed by sophisticated terrorist networks, international financial crises, or natural disasters, the mix of work we are asked to undertake may change, diverting our resources from some of our strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways:

- being alert to possibilities that could shift the Congress's, and therefore our, priorities;
- continuing to identify in our products and meetings with the Congress conditions that could trigger new priorities; and
- quickly redirecting our resources, as appropriate, so that we can deal with major changes that do occur.

At the same time, with concerns about operational security unusually high at home and abroad, it may be more difficult for us to obtain information and report on certain issues. Historically, GAO's auditing and information gathering has been limited where the intelligence community is concerned. Nor have we had the authority to access or inspect records or other materials held by other countries or by multinational institutions that the United States works

with to protect its interests. These limitations may hamper our ability to fully assess what progress is being made in addressing homeland security issues, and because some of our reports may be subjected to greater classification reviews than in the past, their public dissemination may be limited.

## *Data Quality and Program Evaluation*

### *Completeness and Reliability*

Our performance data are complete because actual data are reported for every performance measure and the data are actual results for full fiscal years rather than projections from partial-year data. Our data are reliable because we followed the verification and validation procedures described in this section to ensure their quality. Since most of the data limitations explained here are underestimates of our actual performance, we are confident that they do not affect the quality of the data being presented.

### *Procedures to Ensure Data Quality*

In verifying and validating our own performance data, we benefit from lessons learned from our assessments of other agencies' performance information. We adhere to the same professional standards and internal policies and procedures applied to GAO's audit, evaluation, and analysis work.

Management's use of our performance information on a routine basis further helps to ensure its quality and validity. Data are provided to managers for decision making, and their feedback on these data helps to ensure that the data are properly recorded.

The specific sources of our performance data and procedures for verifying and validating the performance data for each of our performance measures are shown in the table that begins on page 36.

### *Revising GAO's Performance Measures*

In fiscal 2001, as laid out in our first strategic plan, we began assessing our performance measures and, as appropriate, began developing new measures to track progress toward our strategic goals and annual targets. The assessment is focusing on how we could establish a "balanced scorecard" of measures to evaluate our performance in three key areas:

- **Clients:** What feedback do we need from our clients about the value of the services we are providing?
- **Results:** Are we producing the desired results—supporting the Congress, improving government performance, and enhancing accountability—and in an efficient manner?
- **People:** Are we successfully attracting, retaining, supporting, developing, deploying, leading, and recognizing our staff?

We have made progress in each of these areas. We plan to pre-test a new measure based on client feedback in fiscal 2002. Under the "results" category, we have refined our measure of financial benefits and have expanded our measurement of recommendations made to include an indicator of the percentage of our products that contain recommendations. In the key area of "people," we plan to pilot measures and develop base-line data in fiscal 2002 related to (1) attracting and retaining staff; (2) developing and deploying staff; and (3) leading, recognizing, and listening to staff. We will also begin an effort to develop a meaningful measure of the extent to which we are supporting our staff.

### *Program Evaluation*

We used several periodic evaluations to help us review progress toward our strategic objectives in fiscal 2001 and to update them for the draft strategic plan covering fiscal 2002 through 2007. Much of the value of GAO's work—as reflected in our measures of financial and other benefits—results from agencies' acting on our findings and recommendations. Thus, under strategic goals 1, 2, and 3 (which focus on serving the Congress and improving the federal government), we evaluated actions taken by federal agencies and the Congress in response to our recommendations. The findings of this evaluation are conveyed in this performance and accountability report. In addition, we actively monitor the status of open recommendations and report our findings annually to the Congress and the public ([www.gao.gov/openrecs.html](http://www.gao.gov/openrecs.html)). We use the results of that analysis to determine the need for further work in particular areas. If, for example, an agency has not implemented a recommended action that we consider to be still valid and worthwhile, we may decide to

pursue further action with agency officials or congressional committees, or we may decide to undertake additional work on the matter.

Another major evaluation we used to assess the extent to which we are achieving our strategic objectives under goals 1, 2, and 3 was the January 2001 edition of our biennial *Performance and Accountability Series: Major Management Challenges and Program Risks* ([www.gao.gov/pas/2001/pas01.html](http://www.gao.gov/pas/2001/pas01.html)). This series addresses a range of challenges and opportunities to enhance performance and accountability governmentwide and at 21 agencies. The series also includes a companion volume that provides a status report on those major government operations considered "high risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. The series is a valuable evaluation and planning tool for our own agency because it helps us to identify those areas where continued GAO efforts are needed to maintain the focus on important policy and management issues facing the nation.

To help us review our progress toward the strategic objectives under goal 4 (which focuses on improving GAO) we used a number of studies and evaluations:

- a case study of our strategic planning process that identified lessons learned from the development of our first plan for the 21<sup>st</sup> century and that helped improve the process used to update the plan for fiscal 2002 through 2007 ([www.gao.gov/special.pubs/ward.pdf](http://www.gao.gov/special.pubs/ward.pdf));
- a comprehensive assessment of our human capital policies and practices;
- a first-ever knowledge and skills inventory to identify skill gaps and provide the basis for sound succession planning within the agency;
- a comprehensive review of our IT infrastructure to identify opportunities to increase our efficiency, effectiveness, and productivity; and
- a security evaluation of our IT systems.

Finally, GAO's inspector general evaluates the administration of the agency, including assessing key performance measurements. The inspector general's evaluations are useful in ensuring that our operations are efficient and economical. The evaluations are

also used, as are the other evaluations identified previously, in GAO's strategic planning for goal 4. Most of the evaluations done on the strategic objectives under that goal are not available publicly but are discussed in other sections of this report, particularly in the section on management challenges.

A number of planned evaluations should benefit GAO's future performance and accountability efforts. In fiscal 2002, for instance, an independent review will be done of the financial audits GAO did of other agencies during fiscal 2001. This review will assess our quality controls. We also plan to evaluate (1) the effectiveness of GAO's risk management approach to designing engagements and developing quality products that meet GAO's core values and professional standards and (2) a number of our core and support business processes to determine ways of making them more efficient and effective.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Performance measure	Background and context
Financial benefits	Our findings and recommendations directly or indirectly contribute to congressional decision making and executive branch actions that result in significant financial benefits to taxpayers. These benefits include reductions in annual operating costs and the costs of multiyear projects and entitlements as well as increases in revenues from asset sales and changes in tax laws or user fees that are documented as either directly attributable to, or significantly influenced by, our work. The funds made available in response to our findings and recommendations may be used to reduce government expenditures or may be reallocated to other areas.
Other benefits	Our findings and recommendations also contribute to congressional decision making and executive branch actions that result in significant improvements to agency management or performance—for example, by strengthening internal control processes—but do not have directly measurable financial benefits. This measure is the number of actions that the Congress or agencies have taken in response to our findings and recommendations.
Recommendations implemented	As part of our audit responsibilities under generally accepted government auditing standards, we follow up and report yearly to the Congress on the status of actions taken by the Congress and agencies in response to our recommendations. This measure is the percentage rate of implementation of recommendations made 4 years prior to a given fiscal year. For example, the fiscal 2001 implementation rate is the percentage of recommendations made in fiscal 1997 that were implemented by the end of fiscal 2001. Prior experience has shown that if a recommendation has not been implemented within 4 years, it is not likely to be implemented.
Recommendations made and percentage of products containing recommendations	Recommendations in our products help to ensure that benefits will result from our work. These recommendations reflect specific actions that can be taken to improve federal programs. Where appropriate, we strive for recommendations that are directed at resolving the cause of identified problems; that are addressed to parties who have the authority to act; and that are specific, feasible, and cost-effective to the extent practical. We continue to track the number of recommendations made but have supplemented that indicator with one that measures the percentage of our written products that contain recommendations. The latter indicator recognizes that, while more recommendations are generally desirable, the number of recommendations alone is not necessarily a predictor of impact. For example, a product with a single recommendation can help bring about significant financial or other benefits to the government. We believe that, together, these two measures give a more complete picture of the extent to which we are providing decision makers with information that will help improve government.



Data limitations	Verification and validation	Data sources
<p>Not every financial benefit from our work can be readily estimated or directly attributed to GAO. Estimates are based on both objective and subjective data, and as a result, judgment is required. We use data provided by an agency or an independent third party—such as the Congressional Budget Office or a congressional committee—to make our estimates. Therefore, we believe that the total of the estimated benefits from our findings and recommendations understates our overall contribution to congressional decision making and executive branch actions.</p>	<p>Policies and procedures guide the estimation of financial benefits and their attribution to GAO. We require estimates to be based on independent sources and reduced by any identifiable offsetting costs. Benefits are estimated in internal written reports that are formally reviewed to ensure they meet the same documentation and quality standards as any external GAO product. In addition, our Quality and Risk Management office reviews benefit claims in excess of \$100 million, and our Office of the Inspector General reviews claims in excess of \$1 billion. Benefits are revised if new information significantly affects the estimated values.</p>	<p>Internal listing of accomplishment reports.</p>
<p>Other benefits vary in significance. Also, because not all benefits can be directly attributed to our findings and recommendations or documented, this measure understates our overall contribution toward improving government.</p>	<p>Policies and procedures require internally written reports to record the other benefits of our findings and recommendations. These reports are formally reviewed within GAO to ensure the appropriateness of the claimed accomplishment, including attribution to GAO's work. These reports must meet the same documentation and quality standards as any GAO product.</p>	<p>Internal listing of accomplishment reports.</p>
<p>Because the measure is based on the implementation of recommendations made 4 years prior to any given fiscal year, the measured value for any given year will not reflect the results of GAO's activities undertaken within that year. In addition, this measure may not include all actions proposed or initiated by agencies. Specifically, agencies may report actions in response to our recommendations, but we may determine that these actions are insufficient or do not adequately implement our recommendations. In these cases, recommendations will be recorded as not implemented even though the agency has proposed or taken some actions.</p>	<p>GAO policies and procedures specify that staff must verify with sufficient supporting documentation that an agency's reported actions are adequately being implemented. Our staff may interview agency officials, obtain agency documents, access agency databases, or obtain information from the agency's Office of the Inspector General. Internal review procedures are intended to ensure that claims regarding the implementation of our recommendations are consistent and meet our quality requirements. Information on recommendations implemented is maintained in a database managed by an external contractor that routinely conducts software-based checks of data consistency and completeness and annually performs more exhaustive checks for data integrity.</p>	<p>The percentage of recommendations implemented is derived from GAO's document database. Information entered into the database is collected through our recommendation follow-up system.</p>
<p>We provide a variety of products and services that meet the needs of our congressional clients but may not lead to recommendations. For example, the Congress may require descriptive information on federal programs or analyses of the potential consequences of alternative program design options. This information is intended to assist the Congress in its oversight of federal agencies or in its formulation of policy and legislation but does not lend itself to recommendations. Consequently, this measure underestimates the extent to which GAO assists the Congress and federal agencies.</p>	<p>An external contractor reviews all GAO products distributed through a formal process, prepares summaries that identify products containing recommendations, and verifies this information through our recommendation follow-up system. Also, GAO managers are provided with reports on the recommendations being tracked to help ensure that the contractor has correctly identified the recommendations contained in reports.</p>	<p>GAO's document database.</p>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Performance measure	Background and context
Testimonies	<p>The Congress may request that GAO testify at hearings on various issues. Testimony is one of our most important forms of communication with the Congress, and the total number of testimonies reflects the importance and value of our institutional knowledge in assisting congressional decision making.</p>
Timeliness	<p>The likelihood that GAO's products will be used is enhanced if they are produced when needed to support congressional and agency decision making about government programs. We monitor the extent to which our products are completed by dates agreed to with our clients. This measure is the proportion of GAO's products that are issued by the dates agreed to with our clients or, for our R&amp;D work, by the dates agreed to internally.</p>
Qualitative	<p>Assessing the extent to which we achieve multiyear qualitative performance goals helps focus our efforts to support the Congress on issues of critical importance. The qualitative performance goals are a tool for holding ourselves accountable for the resources the Congress provides.</p> <p>For each qualitative performance goal, we identified key efforts needed to achieve it. To determine whether a performance goal has been met, we assess the work completed under the goal's key efforts. For strategic goals 1 through 3—which focus on supporting the Congress and improving the federal government—our performance meets expectations when we provide information or make recommendations on the key efforts when viewed collectively. In making this assessment, the responsible GAO manager considers the number of reports issued and recommendations made across all of the key efforts of a specific performance goal. To make the assessment process more consistent, GAO's Quality and Risk Management office provided guidance suggesting that, for a performance goal to have been met, reports should have been issued or recommendations made under at least 75 percent of the key efforts.</p> <p>For strategic goal 4—which focuses on improving GAO—our performance meets expectations when we complete the key efforts when viewed collectively. GAO's chief mission support officer is the decision maker for all performance goals under strategic goal 4. She makes the final assessment based on the results and progress made on the key efforts for each performance goal. Guidance provided by the Quality and Risk Management office suggests that, for a performance goal to have been met, 75 percent of the key efforts should have been completed.</p> <p>In our strategic plan covering fiscal 2000 through 2005, we anticipated assessing our qualitative performance goals after 3 years (fiscal 2000 through 2002). Instead, we did the assessment at the end of fiscal 2001 to align the assessment cycle with our 2-year cycle for updating our strategic plan. Hence, we are holding ourselves accountable at the end of 2 years for work originally planned to be done in 3 years (see app. III). We will use a 2-year cycle henceforth.</p>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Data limitations	Verification and validation	Data sources
The number of testimonies in any given year may reflect congressional interest in work completed that year, in the previous year, and work in progress. Additionally, the number each year depends on the Congress's agenda. Therefore, year-to-year variations in the total number of testimonies may be influenced by factors other than the quality of our performance in any specific year.	Teams are responsible for notifying GAO's Congressional Relations office of upcoming hearings. Notices of these hearings are entered into a tracking system. Staff are assigned responsibility for monitoring the progress and status of planned hearings within their teams.	Internal listing of hearings planned and held.
We measure the timeliness of key external products but exclude internal products.	Aggregate and job-specific timeliness data are given to managers monthly, who advise of any anomalies. The software used to prepare the monthly reports is verified by comparing job-specific detail from the reports with the same detail on original data files maintained by an external contractor. At job completion, data on job target and completion dates are reported to the manager, who reviews and signs the report to confirm its accuracy.	Our automated Mission and Assignment Tracking System, which is used to monitor job progress on an ongoing basis.
Because our use of qualitative goals is relatively new, we do not yet have sufficient experience to determine their limitations. We expect to continue improving how we establish goals, define key terms, and articulate standards for making assessments.	The assessment of each multiyear performance goal under strategic goals 1 through 3 is supported by documentation showing, by key effort, the number reports issued and recommendations made for the assessment period. Likewise, the assessment of each of the qualitative performance goals under strategic goal 4 is supported by documentation showing the work completed under each key effort. GAO's Quality and Risk Management office reviews the assessment and supporting documentation for all qualitative performance goals to ensure that criteria are consistently applied and that requirements are met.	GAO managers' assessments of success in meeting goals, supported by documentation of work completed under key efforts. For performance goals under our strategic goals 1 through 3, the documentation comes from our automated Mission and Assignment Tracking System. The documentation related to the performance goals under our fourth strategic goal is in the form of summary status reports for each key effort produced by the responsible manager(s).

## Resources Needed to Achieve Our Fiscal 2003 Performance Goals

GAO has requested a budget of \$458 million for fiscal 2003 to maintain current operations to support the Congress as outlined in our strategic plan and to enhance the safety and security of GAO's staff. This funding level would allow us to support our authorized level of 3,269 full-time equivalent personnel.

Almost 80 percent of GAO's fiscal 2003 budget will provide for employee compensation and benefits. The next largest portion of our budget—about \$50 million—is for contract services supporting both GAO's mission work and administrative operations, including information technology, training, and building maintenance and operations services. About \$12 million will be spent on travel and transportation, critical components to accomplishing GAO's mission and ensuring the quality of our work. The remaining funds will be used for office equipment and space rentals; telephone, videoconference, and data communications services; and other operating expenses, including supplies and materials, printing and reproduction, and furniture and equipment. The president has proposed a government-wide initiative to transfer accountability for accruing retirement benefits and postretirement health benefits costs from the Office of Personnel Management to individual agencies. This initiative is a shift in the accounting treatment of these costs, which are presently a component of mandatory costs and in future could be included in discretionary budget authority. Implementation of this proposal is contingent on enactment by the Congress of authorizing language submitted by the administration. If this proposal is enacted, GAO is requesting budget authority of about \$21.3 million to cover fiscal 2003 costs.

During fiscal 2003, we plan to increase our investments in maximizing the productivity of our workforce by continuing to address two of our management challenges: human capital and information technology. On the human capital front, to

### GAO's Proposed Budget, Fiscal 2003

Strategic goal	Dollars in thousands	Full-time equivalent staff
<b>Goal 1</b>		
Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people	\$178,454	1,293
<b>Goal 2</b>		
Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence	124,945	884
<b>Goal 3</b>		
Help transform the federal government's role and how it does business to meet 21 <sup>st</sup> century challenges	136,420	948
<b>Goal 4</b>		
Maximize the value of GAO by being a model federal agency and a world-class professional services organization	17,983	144
<b>Total</b>	<b>\$457,802</b>	<b>3,269</b>

Note: In updating GAO's strategic plan, the wording for goals 3 and 4 was revised for fiscal 2002 and 2003. Elsewhere in this report, the wording in effect for fiscal 2000 and 2001 is used. The wording for goals 1 and 2 did not change.

ensure our ability to attract, retain, and reward high-quality staff, we plan to devote additional resources to our employee benefits and training programs. For example, we will target increased resources to continue initiatives begun in fiscal 2000 to address skill gaps, maximize staff productivity, and increase their effectiveness; to update our training curriculum to address organizational and technical needs; and to train new staff. Also, to enhance our recruitment and retention incentives in fiscal 2002, we will begin offering a student loan repayment program and transit subsidy benefit. In addition, major efforts are under way to implement our performance appraisal system for our analyst staff and to develop new systems for our legal and mission-support staff. We will continue to focus our hiring efforts in fiscal 2003 on recruiting talented entry-level staff.

On the information technology front, we plan to continue initiatives designed to increase our employees' productivity, facilitate knowledge-sharing, maximize the use of technology, and enhance the tools available at the desktop. We will also devote resources to reengineering the information technology systems that support job management processes, such as our engagement tracking system, and implementing tools that will ensure a secure network operating environment.

Finally, we will also make the investments necessary to address our third management challenge—enhancing the safety and security of GAO's people, facilities, and other assets.

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# *Financial Statements*

## *Overview of Financial Statements*

GAO's financial statements and accompanying notes begin on page 51. Our financial statements for the fiscal year ended September 30, 2001, were audited by an independent auditor, Cotton & Co., LLP. Our financial statements for the fiscal year ended September 30, 2000, were audited by Clifton Gunderson, LLP, also an independent auditor. GAO's Audit Advisory Committee recommended that GAO change auditors every 5 years to preserve their independence. Clifton Gunderson's 5-year contract with GAO ended with fiscal 2000.

Cotton & Co., LLP, rendered an unqualified opinion on GAO's financial statements and an unqualified opinion on the effectiveness of GAO's internal controls over financial reporting and compliance with laws and regulations. GAO's auditor also reported that GAO had substantially complied with the applicable requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996 and found no reportable instances of noncompliance with selected provisions of laws and regulations. In the opinion of the independent auditor, the financial statements are presented fairly in all material respects and are in conformity with generally accepted accounting principles.

The net cost of operating GAO during fiscal 2001 and 2000 was approximately \$413 million and \$404 million, respectively. Expenses for salaries and related benefits continue to account for about 80 percent of GAO's net cost of operations. Beginning with fiscal 2001, GAO is reporting net cost of operations according to our four major strategic goals, an appropriate measure of cost consistent with our new strategic planning process. Activities in goal 1, which addresses our work on the well-being and financial security of the American people, were

responsible for most of the increase in GAO's net cost of operations between fiscal 2001 and 2000. That work includes information and recommendations provided to the Congress on health care; education, employment, and income security; the justice system; community investment; natural resources and environmental protection; and the nation's physical infrastructure.

## *Financial Systems and Internal Controls*

GAO recognizes the importance of strong financial systems and internal controls to ensure our accountability, integrity, and reliability. To achieve a high level of quality, management maintains a quality control program and seeks advice and evaluation from both internal and external sources.

GAO is committed to fulfilling the internal control objectives of 31 U.S.C. 3512, formerly the Federal Managers' Financial Integrity Act (FMFIA). Although GAO is not subject to FMFIA, we comply voluntarily with the act's requirements. Our internal controls are designed to provide reasonable assurance that obligations and costs are in compliance with applicable laws and regulations; funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and revenues and expenditures applicable to GAO's operations are properly recorded and accounted for to enable our agency to prepare reliable financial reports and maintain accountability over our assets.

GAO's management assesses compliance with these controls through a series of comprehensive internal reviews, applying the evaluation criteria in OMB's guidance for implementing FMFIA. The results of these reviews are discussed with GAO's Audit Advisory Committee, and action is taken to correct deficiencies as they are identified.

GAO has assessed our internal controls as of September 30, 2001, based on the criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, we believe that we have effective internal controls in place, as of September 30, 2001. Additionally, GAO's independent auditor found that GAO maintained effective internal controls over financial reporting and compliance with all applicable laws and regulations. Consistent with GAO's evaluation, the auditor found no material internal control weaknesses.

In addition, GAO is committed to fulfilling the objectives of the Federal Financial Management Improvement Act of 1996. Although not subject to FFMIA,

GAO voluntarily complies with its requirements. We believe that we have implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level as of September 30, 2001, and for the fiscal year then ended. GAO made this assessment based on criteria established under FFMIA and guidance issued by OMB. Also, GAO's auditor reported that GAO had substantially complied with the applicable requirements of FFMIA for the fiscal year ended September 30, 2001.

GAO's inspector general conducts audits and investigations and functions as an independent fact-gathering and technical adviser to the comptroller general. This year, as a result of the inspector general's efforts, we have improved our policies and internal controls on the use of purchase and travel cards, oversight of unexpended prior-fiscal-year obligations, administering security clearances, and tracking continuing professional education credits earned by GAO employees.

GAO's Audit Advisory Committee assists the comptroller general in overseeing the effectiveness of our financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with laws and regulations relevant to GAO's financial operations. The committee consists of Sheldon S. Cohen (chairman), Alan B. Levenson, and Katherine D. Ortega, whose relevant experience was described earlier in this report. The committee's report follows our financial statements and accompanying notes.

## Government Information Security Reform

GAO's information security program is consistent with the security requirements in the Government Information Security Reform provisions (commonly referred to as "GISRA") enacted in the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001. Although GAO is not obligated by law to comply with GISRA, we have made a concerted effort to follow its guidelines and implement its requirements because one of our strategic goals is to be a model federal agency.

To assess whether GAO is consistent with GISRA requirements, we considered the results of (1) internal reviews by program offices and security staff, (2) independent evaluations of our major financial applications by a public accounting firm, and (3) IT control testing of the general support system by GAO's IT auditors, who are independent of GAO's IT support function. These reviews and evaluations identified no material weaknesses in GAO's financial applications and indicated that GAO has made significant efforts to implement GISRA's requirements. These efforts include establishing a risk-based, agencywide security program; establishing performance measures to ensure that GAO program managers, the chief information officer, and the comptroller general implement and maintain security requirements; providing security training and awareness; establishing the capability to respond to computer security incidents; integrating security into GAO's capital investment control process; identifying GAO's critical assets within our enterprise architecture; and ensuring the security of services provided by a contractor or another agency. In addition, GAO continues to provide separate funding for IT security initiatives, training funds for upgrading IT security staff skills, and additional security staff through contractor support.

The various reviews and evaluations, however, identified opportunities for improvement. In response, GAO has undertaken information security projects that include the following:

- Host-based intrusion detection—We have applied host-based intrusion detection software to GAO's external servers and will apply this software to internal servers during fiscal 2002.
- Two-factor user authentication—We have purchased two-factor user authentication technology that uses a combination of the user's password and a periodically changing numeric token code. This technology will be implemented during fiscal 2002. It is expected to dramatically strengthen GAO's user authentication by reducing our reliance on user-supplied passwords.
- IT disaster recovery plan—We have developed an IT disaster recovery plan and contracted for a disaster recovery facility for GAO's client-server-based systems. We are continuing to work to fully implement and test this plan. In addition, we are testing and implementing new technology that will support our future disaster recovery strategy.



**U.S. General Accounting Office  
Balance Sheet**

**As of September 30, 2001 and 2000  
(Dollars in Thousands)**

	<u>2001</u>	<u>2000</u>
<b>Assets</b>		
Intragovernmental		
Funds with the U.S. Treasury and cash (Note 2)	\$56,482	\$55,115
Accounts receivable (Note 1)	254	487
<b>Total Intragovernmental</b>	<u>56,736</u>	<u>55,602</u>
Property and equipment, net (Note 3)	66,318	74,863
Other (Note 1)	401	369
<b>Total Assets</b>	<u><u>\$123,455</u></u>	<u><u>\$130,834</u></u>
<b>Liabilities</b>		
Intragovernmental		
Accounts payable (Note 1)	\$6,711	\$6,834
Salaries and benefits (Note 5)	2,683	2,502
Workers' compensation (Note 4 and 6)	2,136	2,113
Deferred lease revenue (Note 4 and 7)	5,532	8,550
<b>Total Intragovernmental</b>	<u>17,062</u>	<u>19,999</u>
Accounts payable (Note 1)	10,258	7,713
Salaries and benefits (Note 4 and 5)	18,378	17,535
Accrued annual leave and other (Note 4)	27,836	27,573
Workers' compensation (Note 4 and 6)	7,954	8,008
Capital leases (Note 4 and 8)	5,360	7,730
<b>Total Liabilities</b>	<u>86,848</u>	<u>88,558</u>
<b>Net Position</b>		
Unexpended appropriations	21,258	23,515
Cumulative results of operations	15,349	18,761
<b>Total net position</b>	<u>36,607</u>	<u>42,276</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$123,455</u></u>	<u><u>\$130,834</u></u>

The accompanying notes are an integral part of these statements.

**FINANCIAL STATEMENTS****U.S. General Accounting Office  
Statement of Net Cost****For Fiscal Years Ended September 30, 2001 and 2000  
(Dollars in Thousands)**

	<u>2001</u>	<u>2000</u>
<b>Net Costs by Goal</b>		
<b>Goal 1: Well-being/financial security of American people</b>	\$161,142	\$153,448
Less: reimbursable services	(30)	-
<b>Net goal costs</b>	<u>161,112</u>	<u>153,448</u>
 <b>Goal 2: Changing security threats/challenges of global interdependence</b>	93,456	96,993
Less: reimbursable services	(16)	-
<b>Net goal costs</b>	<u>93,440</u>	<u>96,993</u>
 <b>Goal 3: Results-oriented and accountable federal government</b>	140,215	135,415
Less: reimbursable services	(756)	(778)
<b>Net goal costs</b>	<u>139,459</u>	<u>134,637</u>
 <b>Goal 4: Maximize the value of GAO</b>	20,695	19,760
Less: reimbursable services	-	-
<b>Net goal costs</b>	<u>20,695</u>	<u>19,760</u>
 <b>Less: reimbursable services not attributable to goals</b>	<u>(1,652)</u>	<u>(712)</u>
 <b>Net Cost of Operations (Note 9)</b>	<u><u>\$413,054</u></u>	<u><u>\$404,126</u></u>

The accompanying notes are an integral part of these statements.

U.S. General Accounting Office  
Statement of Changes in Net Position

For Fiscal Years Ended September 30, 2001 and 2000  
(Dollars in Thousands)

	2001 Cumulative Results of Operations	2001 Unexpended Appropriations	2000 Cumulative Results of Operations	2000 Unexpended Appropriations
<b>Balances, Beginning of Fiscal Year</b>	\$18,761	\$23,515	\$17,328	\$22,777
<b>Reinstatement of the GAO Building and Land as a Multi-Use Heritage Asset (Note 1)</b>	-	-	9,963	-
<b>Balances, Beginning of Fiscal Year, as Adjusted</b>	18,761	23,515	27,291	22,777
<b>Budgetary Financing Sources</b>				
Current year appropriations	-	384,020	-	377,561
Transfers of budget authority (Note 10)	-	983	-	125
Lapsed budget authority	-	(112)	-	(308)
Appropriations used	387,148	(387,148)	376,640	(376,640)
<b>Other Financing Sources</b>				
Intragovernmental transfer of property and equipment	(205)	-	(556)	-
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 5)	19,681	-	19,009	-
Amortization of deferred lease revenue (Note 7)	3,018	-	503	-
<b>Total Financing Sources</b>	409,642	(2,257)	395,596	738
<b>Net Cost of Operations</b>	(413,054)	-	(404,126)	-
<b>Balances, End of Fiscal Year</b>	\$15,349	\$21,258	\$18,761	\$23,515

The accompanying notes are an integral part of these statements.

**FINANCIAL STATEMENTS****U.S. General Accounting Office  
Statement of Budgetary Resources****For Fiscal Years Ended September 30, 2001 and 2000  
(Dollars in Thousands)**

	<u>2001</u>	<u>2000</u>
<b>Budgetary Resources (Note 10)</b>		
Current year appropriations	\$384,020	\$377,561
Transfers of budget authority	983	125
Unobligated appropriations, beginning of fiscal year	4,264	4,477
Reimbursable services (Note 9)	2,454	1,490
Cost sharing and pass-through CPA contract reimbursements	1,222	7,000
<b>Total Budgetary Resources</b>	<u><u>\$392,943</u></u>	<u><u>\$390,653</u></u>
<b>Status of Budgetary Resources</b>		
Obligations incurred	\$385,319	\$386,081
Unobligated appropriations, end of fiscal year	7,512	4,264
Lapsed budget authority	112	308
<b>Total Status of Budgetary Resources</b>	<u><u>\$392,943</u></u>	<u><u>\$390,653</u></u>
<b>Relationship of Obligations to Outlays</b>		
Obligations incurred	\$385,319	\$386,081
Obligated balance, net - beginning of fiscal year	50,851	48,866
Less: Obligated balance, net - end of fiscal year	(48,970)	(50,851)
<b>Total Outlays</b>	<u>387,200</u>	<u>384,096</u>
Less: Reimbursable services	(2,454)	(1,490)
Cost sharing and pass-through CPA contract reimbursements	(1,222)	(7,000)
<b>Net Outlays</b>	<u><u>\$383,524</u></u>	<u><u>\$375,606</u></u>
<b>Outlays</b>		
Disbursements	\$387,200	\$384,096
Collections	(3,676)	(8,490)
<b>Net Outlays</b>	<u><u>\$383,524</u></u>	<u><u>\$375,606</u></u>

The accompanying notes are an integral part of these statements.

**U.S. General Accounting Office  
Statement of Financing**

**For Fiscal Years Ended September 30, 2001 and 2000  
(Dollars in Thousands)**

	<b>2001</b>	<b>2000</b>
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$385,319	\$386,081
Less: Reimbursable services (Note 9)	(2,454)	(1,490)
Cost sharing and pass-through CPA contract reimbursements (Note 10)	(1,222)	(7,000)
Net obligations	381,643	377,591
<b>Other Resources</b>		
Intragovernmental transfer of property and equipment	(205)	(556)
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 5)	19,681	19,009
Amortization of deferred lease revenue (Note 7)	3,018	503
Net other resources used to finance activities	22,494	18,956
<b>Total resources used to finance activities</b>	<b>404,137</b>	<b>396,547</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Net decrease (increase) in unliquidated obligations	5,505	(951)
Costs capitalized on the balance sheet	(13,983)	(9,204)
Total resources used to finance items not part of the net cost of operations	(8,478)	(10,155)
<b>Total resources used to finance the net cost of operations</b>	<b>395,659</b>	<b>386,392</b>
<b>Costs That Require Resources in Future Periods</b>		
Expenses to be funded by future appropriations (Note 11)	298	1,159
<b>Costs That Do Not Require Resources</b>		
Depreciation	17,097	16,575
<b>Net Cost of Operations</b>	<b>\$413,054</b>	<b>\$404,126</b>

The accompanying notes are an integral part of these statements.

# Notes to Financial Statements

## Note 1. Summary of Significant Accounting Policies

### Reporting Entity

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and a building expenditure fund. The financial statements, except for federal employee benefit costs paid by the Office of Personnel Management (OPM) and imputed to GAO, do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as interest on the federal debt, which may in part be attributable to GAO; they also do not include activity related to GAO's trust function described in Note 12.

### Basis of Accounting

The Federal Accounting Standards Advisory Board (FASAB) was established in October 1990 by the secretary of the Treasury, the director of the Office of Management and Budget (OMB), and the comptroller general (the principals). The mission of FASAB is to recommend proposed accounting standards to the principals after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and other users of federal financial information. When FASAB has developed a proposed concept or standard, FASAB submits it to the principals, who have 90 days to review the concept or standard and communicate any objections. If none of the principals objects, the concept or standard becomes final guidance for federal financial reporting entities.

In April 2000, the American Institute of Certified Public Accountants (AICPA) recognized FASAB Standards as generally accepted accounting principles (GAAP) for federal reporting entities. These principles

differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities.

### Basis of Presentation

GAO's financial statements have been prepared on the accrual basis of accounting in conformity with GAAP for the federal government. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash.

The statements were also prepared in conformity with OMB Bulletin 01-09, Form and Content of Agency Financial Statements. The provisions of this bulletin are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 2002, and beyond. However, GAO has chosen to implement the provisions of this bulletin with the preparation of its fiscal year 2001 financial statements. Implementation of these requirements resulted in the following significant changes in the form and content of the financial statements:

- **Balance Sheet**—Liabilities covered by budgetary resources and liabilities not covered by budgetary resources are combined on the face of the balance sheet. Liabilities not covered by budgetary resources are disclosed in Note 4.
- **Statement of Changes in Net Position**—Net position is affected by changes to its two components: cumulative results of operations and unexpended appropriations. The statement format has been changed to display each component of net position separately to enable the user to better understand the nature of changes to net position as a whole.

GAO also has changed the Statement of Net Cost to report the net cost of operations according to its four major strategic goals, consistent with the agency's strategic planning process.

GAO restated its fiscal 2000 financial statements to conform with fiscal 2001 presentation.

### Assets

Intragovernmental assets are those assets that arise from transactions with other federal entities.

## FINANCIAL STATEMENTS

Nonentity assets are assets that are held by an entity but are not available for use by the entity in its operations. GAO had no nonentity assets as of September 30, 2001 and 2000.

### Funds with the U.S. Treasury

The U.S. Treasury processes GAO's receipts and disbursements. Funds with Treasury represent appropriated funds Treasury will provide to pay liabilities and to finance authorized purchase commitments.

### Accounts Receivable

GAO's accounts receivable are due principally from federal agencies for reimbursable services; therefore, GAO has not established an allowance for doubtful accounts.

### Property and Equipment

The GAO building is listed in the National Register of Historic Places and has been designated as and is GAO's only heritage asset. Maintenance of the building has been kept on a current basis. In fiscal year 1996, the GAO building and land were removed from the Balance Sheet to conform with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant and Equipment, and No. 8, Supplemental Stewardship Reporting, then in effect. SFFAS No. 16, Amendments to Accounting for Property, Plant and Equipment: Multi-Use Heritage Assets, effective for periods beginning after September 30, 1999, was issued to amend the measurement and reporting requirement for multi-use heritage assets as originally prescribed in SFFAS Nos. 6 and 8. SFFAS No. 16 requires accounting for multi-use heritage assets as general property, plant, and equipment to be included in the balance sheet and depreciated. Therefore, the GAO building and land were reinstated on the financial statements at their value set on the day of transfer from the General Services Administration (GSA), and accumulated depreciation was adjusted to reflect the depreciation not taken in 1996 through 1999. The building is depreciated on a straight-line basis over 25 years. The reinstatement of the GAO building and land is reflected in the fiscal year 2000 Statement of Changes in Net Position and was computed as follows:

Dollars in thousands

Building acquisition value	\$15,664
Land acquisition value	1,191
Total	16,855
Less accumulated depreciation through September 30, 1999	6,892
Reinstatement of the GAO Building and Land as a Multi-Use Heritage Asset	\$9,963

Property and equipment costing more than \$5,000 are capitalized at cost. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized at cost. These assets are depreciated on a straight-line basis over the estimated useful life of the property, ranging from 2 to 20 years. GAO's property and equipment have no restrictions as to use or convertibility except for the restrictions related to the GAO building's classification as a multi-use heritage asset.

### Other Assets

The composition of Other Assets as of September 30, 2001 and 2000, is as follows:

Dollars in thousands

	2001	2000
Operating supplies to be consumed in normal operations (valued at cost)	\$357	\$313
Other receivables	44	56
Total Other Assets	\$401	\$369

### Liabilities

Liabilities represent amounts that are likely to be paid by GAO as a result of transactions that have already occurred; however, no liability is paid by GAO absent an appropriation.

Intragovernmental liabilities arise from transactions with other federal entities.

### Accounts Payable

Accounts Payable consist of amounts owed to federal agencies and commercial vendors for goods, services, and other expenses received but not yet paid.

## FINANCIAL STATEMENTS

### Federal Employee Benefits

GAO recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render such services. The pension expense recognized in the financial statements equals the current service cost for GAO's employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions, with the factors applied by GAO provided by OPM, the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by GAO and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This amount is considered imputed financing to GAO.

GAO recognizes a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. GAO accounted for and reported this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and GAO do not make current contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed to GAO are reported on the Statements of Changes in Net Position and Financing and are also included as a component of net cost by goal on the Statement of Net Cost.

### Annual, Sick and Other Leave

Annual leave is recognized as an expense and a liability as it is earned; the liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Sick leave and other types of leave are expensed as leave is taken.

### Contingencies

GAO has certain claims and lawsuits pending against it. Provision is included in GAO's financial statements for losses considered probable and estimable. Management believes that losses from other claims and lawsuits are reasonably possible but are not material to the fair presentation of GAO's financial statements and provision for these losses is not included in the financial statements.

### Note 2. Funds with the U.S. Treasury and Cash

GAO's funds with the U.S. Treasury consist of only appropriated funds. GAO also maintains cash imprest funds for use in daily operations. The status of these funds as of September 30, 2001 and 2000, is as follows:

Dollars in thousands		
	2001	2000
Unobligated balance		
Available	\$2,855	\$1,635
Unavailable	4,657	2,629
Obligated balances not yet disbursed	48,928	50,792
Total Funds with U.S. Treasury	56,440	55,056
Cash	42	59
Total Funds with U.S. Treasury and Cash	\$56,482	\$55,115

### Note 3. Property and Equipment, Net

The composition of property and equipment as of September 30, 2001, is as follows:

Dollars in thousands			
Classes of property and equipment	Acquisition value	Accumulated depreciation	Book value
Building	\$15,664	\$8,145	\$7,519
Land	1,191	—	1,191
Building improvements	98,924	64,114	34,810
Computer and other equipment, and software	48,476	31,411	17,065
Leasehold improvements	4,843	4,470	373
Assets under capital lease	15,330	9,970	5,360
Total property and equipment	\$184,428	\$118,110	\$66,318



# FINANCIAL STATEMENTS

The composition of property and equipment as of September 30, 2000, is as follows:

Dollars in thousands

Classes of property and equipment	Acquisition value	Accumulated depreciation	Book value
Building	\$15,664	\$7,519	\$8,145
Land	1,191	—	1,191
Building improvements	97,757	56,085	41,672
Computer and other equipment, and software	46,973	31,226	15,747
Leasehold improvements	4,888	4,510	378
Assets under capital lease	14,916	7,186	7,730
Total property and equipment	<u>\$181,389</u>	<u>\$106,526</u>	<u>\$74,863</u>

## Note 4. Liabilities Not Covered by Budgetary Resources

The liabilities on GAO's Balance Sheet as of September 30, 2001 and 2000, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2001 and 2000, is as follows:

Dollars in thousands

	2001	2000
Intragovernmental liabilities		
Workers' compensation	\$2,136	\$2,113
Deferred lease revenue	5,532	8,550
Total Intragovernmental	<u>7,668</u>	<u>10,663</u>
Salaries and benefits—comptrollers general retirement plan	2,507	2,441
Accrued annual leave and other	27,836	27,573
Workers' compensation	7,954	8,008
Capital leases	5,360	7,730
Total liabilities not covered by budgetary resources	<u>\$51,325</u>	<u>\$56,415</u>

## Note 5. Federal Employee Benefits

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes contributions to CSRS, FERS, and FICA and matches employee contributions to the thrift savings component of FERS up to 5 percent of basic pay. The pension expense recognized in GAO's financial statements for fiscal years 2001 and 2000 amounted to approximately \$35,544,000 and \$35,061,000, respectively. These amounts include pension costs financed by OPM and imputed to GAO of \$11,417,000 and \$11,285,000, respectively. To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's financial statements. However, the payments to FICA that GAO makes are recognized as operating expenses. These payments amounted to approximately \$10,616,000 and \$10,314,000 during fiscal years 2001 and 2000, respectively. Similarly, to the extent that GAO employees are covered by the thrift savings component of FERS, GAO payments to the plan are operating expenses. GAO's costs associated with the thrift savings component of FERS during fiscal years 2001 and 2000 amounted to approximately \$5,239,000 and \$5,010,000, respectively.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGSLIP) and may continue to participate after retirement. GAO makes contributions to FEHBP and FEGSLIP for active employees to pay for their current benefits. GAO's contributions for active employees are recognized as operating expenses and, during fiscal years 2001 and 2000, amounted to approximately \$10,351,000 and \$9,881,000, respectively. Using the cost factors supplied by OPM, GAO has also recognized an expense in its financial statements for the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$8,264,000 and \$7,724,000 during fiscal years 2001 and 2000, respectively, and are financed by OPM and imputed to GAO.

Comptrollers general and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are paid from current year appropriations and amounted to approximately \$260,000 and \$251,700 during fiscal years 2001 and 2000, respectively. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits of \$2,507,000 as of September 30, 2001, and \$2,441,000 as of September 30, 2000, is included as a component of salary and benefit liabilities on GAO's Balance Sheet.

### *Note 6. Workers' Compensation*

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by GAO. GAO recorded an estimated liability for claims incurred as of September 30, 2001 and 2000, and expected to be paid in future periods. This estimated liability of \$7,954,000 and \$8,008,000 as of September 30, 2001, and 2000, respectively, is reported on GAO's Balance Sheet. GAO also recorded a liability for amounts paid to claimants by

DOL as of September 30, 2001 and 2000, of \$2,136,000 and \$2,113,000, respectively, but not yet reimbursed to DOL by GAO. The amount owed to DOL is reported on GAO's Balance Sheet as an intragovernmental liability.

### *Note 7. Deferred Lease Revenue*

The U.S. Army Corps of Engineers (COE) entered into an agreement with GAO to lease the entire third floor of the GAO building. COE provided all funding for the third floor renovation. Occupancy began August 3, 2000, for an initial period of 3 years, with options to renew on an annual basis for 7 additional years. Total rental revenue to GAO includes a base rent, which remains constant for the entire 10-year period, plus operating expense reimbursements at a fixed amount for the first 3 years, with escalations from year 4 through year 10.

In addition, COE paid for the design, construction, and renovation of one half of the sixth floor to be occupied by GAO. GAO has capitalized the renovations at a cost of \$9,052,612. GAO will repay COE for the entire cost of the renovations in the form of rental credits during the first 3 lease years. Rental credits have been recorded as deferred lease revenue and will be amortized over a 3-year lease term. The current year amortization of deferred lease revenue is reported on the Statement of Changes in Net Position as a financing source and on the Statement of Financing as an other resource.

COE subsequently agreed to lease an additional 19,812 square feet of space on the sixth floor with occupancy beginning in fiscal year 2002 and lasting through the original lease term.

The net amount of rental revenue due to GAO each year is the total revenue less the amortization of the deferred lease revenue. Fiscal year 2001 and 2000 rents received by GAO, net of the deferred lease revenue amortization, amounted to \$1,171,000 and \$189,000, respectively. This amount is included in reimbursable services on the Statements of Budgetary Resources and Financing. Net rental revenue for the 10-year period is as follows:

Dollars in thousands

Fiscal year ending September 30	Total rental revenue	Amortization of deferred lease revenue	Rental revenue received or due
2000	\$692	\$503	\$189
2001	4,189	3,018	1,171
2002	4,517	3,018	1,499
2003	4,663	2,514	2,149
2004	4,808	—	4,808
2005	4,866	—	4,866
2006	4,927	—	4,927
2007–2010	19,485	—	19,485
Total	<u>\$48,147</u>	<u>\$9,053</u>	<u>\$39,094</u>

## Note 8. Leases

### Capital Leases

GAO has entered into capital leases for office and computer equipment under which the ownership of the equipment covered under the leases transfers to GAO when the leases expire. When GAO enters into these leases, the present value of the future lease payments is capitalized, net of imputed interest, and recorded as a liability. The acquisition value and accumulated depreciation of GAO's capital leases are shown in Note 3, Property and Equipment, Net. As of September 30, 2001 and 2000, the capital leases liability was \$5,360,000 and \$7,730,000, respectively.

The lease agreements are written as annual fiscal-year contracts that are subject to the availability of funding. The agreements contain a lease-to-purchase provision, and there is no penalty for canceling the lease and returning the equipment before the end of the lease term. GAO's estimated future minimum lease payments under the terms of the leases are as follows:

Dollars in thousands

Fiscal year ending September 30	Total
2002	\$3,162
2003	2,073
2004	657
2005	16
2006	1
Total Estimated Future Lease Payments	<u>5,909</u>
Less: Imputed Interest	<u>(549)</u>
Net Capital Lease Liability	<u>\$5,360</u>

### Operating Leases

GAO leases office space from GSA and has entered into various other operating leases for office communication and computer equipment. Lease costs for office space and equipment for fiscal years 2001 and 2000 amounted to approximately \$7,053,000 and \$7,800,000, respectively. GAO's estimated future minimum lease payments are as follows:

Dollars in thousands

Fiscal year ending September 30	Total
2002	\$6,429
2003	3,260
2004	2,317
2005	2,062
2006	400
Total Estimated Future Lease Payments	<u>\$14,468</u>

Leased property and equipment must be capitalized if certain criteria are met. Since property and equipment covered under GAO's operating leases do not satisfy these criteria, GAO's operating leases are not reflected on the Balance Sheet. However, annual lease costs under the operating leases are included as components of net cost by goal in the Statement of Net Cost.

## Note 9. Net Cost of Operations

In fiscal year 2001, GAO changed its presentation of net cost of operations to reflect costs by its four major strategic goals, an appropriate measure of cost consistent with the strategic planning process. The

## FINANCIAL STATEMENTS

fiscal year 2000 presentation of net cost of operations by program area was restated and presented by goals in order to conform with the fiscal year 2001 presentation of those amounts.

Expenses for salaries and related benefits for fiscal years 2001 and 2000 amounted to \$326,772,000 and \$321,995,000, respectively, which were about 80 percent of GAO's annual net cost of operations. Included in the net cost of operations are federal employee benefit costs paid by OPM and imputed to GAO of \$19,681,000 in fiscal year 2001 and \$19,009,000 in fiscal year 2000. Revenues from reimbursable services are shown as an offset against the full cost of the goal to arrive at its net cost. These revenues consist primarily of rental revenue from the lease of space in the GAO building and billings to federal government corporations for financial statement audits performed by GAO. Earned revenues that are insignificant or cannot be associated with a major goal are shown in total. Revenues from reimbursable services for fiscal years 2001 and 2000 amounted to \$2,454,000 and \$1,490,000, respectively. The net cost of operations represents GAO's operating costs that must be funded by financing sources other than revenues earned from reimbursable services. These financing sources are presented in the Statement of Changes in Net Position.

### *Note 10. Budgetary Resources*

Budgetary resources made available to GAO include current appropriations, spending authority from budget transfers and reimbursements arising from both revenues earned by GAO from providing goods and services to other federal entities for a price (reimbursable services), and cost sharing and pass-through contract arrangements with other federal entities. Fiscal year 2001 budget transfers consisted of budget authority transferred in from funds allocated for legislative branch agencies' Year 2000 (Y2K) needs to replace non-Y2K-compliant computers remaining in GAO's inventory. Budget transfers in fiscal year 2000 consisted of budget authority transferred in from OMB for a management review of the operations of the Office of National Drug Control Policy. Reimbursements from cost sharing and pass-through contract arrangements consisted primarily of collections from other federal entities for the support of FASAB and collections from other federal entities that utilize standing GAO contracts for

obtaining accounting and auditing services from CPA firms. The costs and reimbursements for these activities are not included in the Statement of Net Cost.

### *Note 11. Expenses to Be Funded by Future Appropriations*

Expenses to be funded by future appropriations are reported in the Statement of Financing. These expenses represent the increase in liabilities not covered by budgetary resources, as reported in Note 4.

Dollars in thousands

Fiscal year ending September 30	2001	2000
Liabilities not covered by budgetary resources, as disclosed in Note 4	\$51,325	\$56,415
Liabilities that are not components of net cost:		
Deferred lease revenue	(5,532)	(8,550)
Capital leases	(5,360)	(7,730)
Current year liabilities not covered by budgetary resources that are components of net cost	40,433	40,135
Prior year liabilities that are not components of current year net costs	(40,135)	(38,976)
Expenses to be funded by future appropriations, as reported on the Statement of Financing	\$298	\$1,159

### *Note 12. Davis-Bacon Act Trust Function*

GAO is responsible for administering for the federal government the trust function of the Davis-Bacon Act receipts and payments. GAO maintains this fund to pay claims relating to violations of the Davis-Bacon Act and Contract Work Hours and Safety Standards Act. Under these acts, DOL investigates violation allegations to determine if federal contractors owe additional wages to covered employees. If DOL concludes that a violation has occurred, GAO collects the amount owed from the contracting federal agency, deposits the funds into an account with the U.S. Treasury, and remits payment to the employee. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trust. Trust assets under GAO's administration

totaled approximately \$4,600,000 as of September 30, 2001. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 2001, receipts and disbursements in the trust amounted to \$1,964,000 and \$2,139,000, respectively. Since the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying financial statements.

## *Report of the Audit Advisory Committee*

The Audit Advisory Committee assists the comptroller general in overseeing the U.S. General Accounting Office's (GAO) financial operations. As part of that responsibility, the committee meets with agency management and its internal and external auditors to review and discuss GAO's external financial audit coverage, the effectiveness of GAO's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact GAO's financial statements. The committee reviews the findings of the internal and external auditors, and GAO's responses to those findings, to ensure that GAO's plan for corrective action includes appropriate and timely follow-up measures. In addition, the committee reviews and comments on the draft Performance and Accountability Report, including its financial statements. The committee met twice during fiscal 2001. During these sessions, the committee met with the internal and external auditors without GAO management being present.



Sheldon S. Cohen  
Chairman  
Audit Advisory Committee

# Independent Auditor's Report

## COTTON & COMPANY LLP

auditors • advisors

DAVID L. COTTON, CPA, CFE, CGFM • CHARLES HAYWARD, CPA, CFE, CISA • MICHAEL W. GILESPIE, CPA, CFE • CATHERINE L. NOCERA, CPA, CISA  
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### INDEPENDENT AUDITOR'S REPORT

Comptroller General of the United States

Cotton & Company LLP audited the General Accounting Office's (GAO) Balance Sheet as of September 30, 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the year then ended. GAO's financial statements as of September 30, 2000, and for the year then ended, were audited by other auditors whose report dated December 15, 2000, expressed an unqualified opinion on those statements, before the restatement of the Statement of Net Cost as discussed below under the caption *Opinion on Financial Statements*. We found:

- The 2001 financial statements referred to above are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- GAO maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2001,
- GAO's financial management systems substantially complied with the applicable requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- No reportable noncompliance with laws and regulations we tested.

The following sections discuss the above conclusions in more detail, as well as our conclusions on Management's Discussion and Analysis (MD&A) and other accompanying information.

### Opinion on Financial Statements

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of GAO as of September 30, 2001, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the financial statements, *Net Cost of Operations*, GAO changed its fiscal year 2001 presentation of net operating costs consistent with its strategic planning process, and restated the presentation of fiscal year 2000 costs for consistency. We audited the basis and methodology GAO used to restate the presentation of the fiscal year 2000 net operating costs. In our opinion, such restatement is appropriate and has been properly applied.

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### Opinion on Internal Control

In our opinion, GAO maintained, in all material respects, effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2001, based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA).

### Opinion on FFMIA Compliance

In our opinion, GAO's financial management systems substantially complied with the three FFMIA requirements: (1) Federal financial management system requirements, (2) Federal accounting standards, and (3) the U.S. Government Standard General Ledger (SGL) at the transaction level; as of September 30, 2001.

### Compliance with Laws and Regulations

The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion. However, our tests for compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

This conclusion is intended solely for the information and use of the management of GAO, OMB, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

### Consistency of Other Information

Our audit was conducted for the purpose of forming an opinion on the fiscal year 2001 financial statements taken as a whole. Certain portions of the Performance and Accountability Report are not a required part of the basic financial statements, but are supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, and the Financial Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussions and Analysis*. This supplementary information is MD&A and other accompanying information. Other accompanying information consists of the full Performance and Accountability report except for the MD&A, the basic financial statements and notes thereto, and this auditor's report. We have applied certain limited procedures, which consisted principally of inquiries of management and selected tests of this information, such as comparing it for consistency with the financial statements and footnotes. Based on these limited procedures, we found no material inconsistencies with the financial statements or footnotes. However, we did not audit this information and express no opinion on it.

### Management's Responsibility

Management has the responsibility for:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles and OMB Bulletin No. 01-09;



- Establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met;
- Implementing, maintaining, and assessing financial management systems to provide reasonable assurance of substantial compliance with the requirements of FMFIA; and
- Complying with applicable laws and regulations.

#### Auditor's Responsibility and Methodology

Cotton & Company LLP performed its audit and examinations in accordance with *Government Auditing Standards*, U.S. generally accepted auditing standards, the American Institute of Certified Public Accountants' (AICPA) attestation standards, and OMB Bulletin No. 01-02. We believe our audit and examinations provide a reasonable basis for our opinions.

We are responsible for planning and performing our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

We have examined management's assertion that GAO maintained effective control over financial reporting (including safeguarding of assets) and compliance with applicable laws and regulations as of September 30, 2001, based on internal GAO evaluations using criteria established in FMFIA. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination. We conducted our examination in accordance with attestation standards established by the AICPA and *Government Auditing Standards* and, accordingly, obtained an understanding of internal control over financial reporting, safeguarding of assets and compliance with laws and regulations; tested and evaluated the design and operating effectiveness of internal control; and performed other procedures considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

With respect to internal control related to significant performance measures included in the MD&A, we obtained an understanding of the design of internal control relating to the existence and completeness assertions and determined whether they had been placed in operation, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have examined management's assertion that, as of September 30, 2001, GAO's financial management systems substantially complied with the three FMFIA requirements: (1) Federal financial management system requirements, (2) Federal accounting standards, and (3) the SGL at the transaction level. Management's assertion was based on internal GAO evaluations using compliance indicators set forth in OMB guidance, dated January 4, 2001, *Revised Implementation Guidance for FMFIA*, and criteria in OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*. Our responsibility is to express an opinion on whether GAO's financial management systems substantially complied with the above-mentioned requirements, based on our

examination. We conducted our examination in accordance with attestation standards established by the AICPA and *Government Auditing Standards* and, accordingly, we examined, on a test basis, evidence about GAO's substantial compliance with those requirements, and performed such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of GAO's financial management systems compliance with specified requirements.

We are responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to GAO. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2001. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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We noted other matters involving the internal control and its operation that we will communicate in a separate letter.

COTTON & COMPANY LLP



Charles Hayward, CPA

Alexandria, Virginia  
December 15, 2001

# Appendix I

## Measures and Targets for Fiscal 1998 through 2003

### Agencywide

#### Annual

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$19.7	\$20.1	\$23.2	\$23.0	\$26.4	\$30.0 <sup>a</sup>	\$35.0 <sup>a</sup>
Other benefits	537	607	788	700	799	770 <sup>b</sup>	785
Recommendations implemented <sup>c</sup>	69%	70%	78%	75%	79%	75%	77%
Recommendations made	987	940	1,224	975	1,563	1,200 <sup>b</sup>	1,200
Products with recommendations <sup>d</sup>	33%	33%	39%	<sup>e</sup>	44%	45%	50%
Testimonies	256	229	263	150	151	200 <sup>b</sup>	210
Timeliness <sup>d</sup>	93%	96%	96%	100%	95%	98% <sup>b,f</sup>	98% <sup>f</sup>

#### 4-Year Average

Performance measure	1998	1999	2000	2001
Financial benefits (billions)	\$18.4	\$19.5	\$21.0	\$22.4
Other benefits	354	451	581	683
Recommendations made	848	898	997	1,179
Products with recommendations <sup>d</sup>	33%	33%	35%	37%
Testimonies	216	212	233	225
Timeliness <sup>d</sup>	<sup>g</sup>	88%	94%	95%

#### 2-Year Qualitative Performance Goal Results

Performance measure	Met	Not met	In progress
2000-2001: 94 goals	89%	11% <sup>h</sup>	
2002-2003: 97 goals			100%

Note: Agencywide totals may differ from the sum of the amounts on the tables for strategic goals 1, 2, and 3 because when multiple units participate in an engagement, credit may be reflected under more than one of the goals.

## *Notes to the Tables in This Appendix*

### **Note a**

For fiscal 2002, we initially set a target of \$24 billion after meeting with each of our teams and assessing actions on our recommendations that had already occurred or were expected to occur. We have since revised the target to \$30 billion to reflect changes in the way we tabulate certain financial benefits.

In the past, we limited the period for which financial benefits from a particular action directly attributable to, or significantly influenced by, our work could be tabulated to 2 fiscal years. While we are retaining the 2-year limit for financial benefits from reductions in agencies' annual operating costs (achieved, for instance, through decreasing the number of staff assigned to a specific program in response to a GAO recommendation), beginning in fiscal 2002, we are extending the period to 5 years for financial benefits from reductions in the costs of multiyear projects and entitlements and from increases in revenues from asset sales or changes in tax laws or user fees. The longer period more accurately reflects the value realized by the taxpayers from changes brought about by our work and is a conservative measure because some of our efforts produce financial benefits that extend beyond 5 years. We continue to use a 2-year period when reporting benefits generated by changes made to federal agencies' operations because experience has shown that it is difficult for agencies to maintain the momentum on changes of this type over extended periods.

As always, the financial benefits GAO reports will be based on the calculations of independent sources. Because agencies need time to implement GAO's recommendations and document savings, the financial benefits we report in a given year may be based on work we performed in the current or previous years.

### **Note b**

These targets have been revised. Original targets were other benefits, 720; testimonies, 233; recommendations made, 1,000; timeliness, 100 percent. The targets at the strategic goal level were also revised. For details on these and other changes to

GAO's performance plan for fiscal 2002, please see the revised final plan issued in January 2002 available at [www.gao.gov/sp/rfpfy02.pdf](http://www.gao.gov/sp/rfpfy02.pdf).

### **Note c**

This measure gauges the implementation rate of recommendations made 4 years prior to each respective fiscal year.

### **Note d**

We assess timeliness and percentage of products with recommendations agencywide but not at the strategic goal level.

### **Note e**

Because this measure has been introduced for fiscal 2002, it has no target for fiscal 2001.

### **Note f**

GAO will continue to strive to deliver 100 percent of its products by the dates agreed to with their congressional requesters. The target has been revised to 98 percent simply because it is more realistic in light of the external factors GAO confronts in issuing its products. The lower target does not reflect a lesser commitment to timeliness.

### **Note g**

Because data were not collected for this measure in fiscal 1994 and 1995, a 4-year average could not be calculated for actual performance.

### **Note h**

To bring GAO's strategic planning period into closer alignment with the Congress's 2-year cycle, we have held ourselves accountable for our performance on our 94 qualitative performance goals at the end of 2 years instead of at the end of 3 years as originally planned. We will account for our performance on our qualitative goals every 2 years henceforth.

The transition's early cut-off, however, led to goals being characterized as "not met" because some months of work must still be done to reach them. The work remaining under these goals has been carried forward under our new performance goals for fiscal 2002 and 2003.

### **Note i**

Not applicable.

### Strategic Goal 1

*Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People*

#### Annual

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$10.8	\$13.8	\$14.1	\$12.7	\$8.9	\$17.0 <sup>a</sup>	\$22.8 <sup>a</sup>
Other benefits	177	140	182	196	210	218 <sup>b</sup>	218
Recommendations implemented <sup>c</sup>	69%	72%	72%	75%	71%	75%	77%
Recommendations made	285	350	435	349	396	359 <sup>b</sup>	359
Testimonies	130	123	131	71	73	93 <sup>b</sup>	93

#### 4-Year Average

Performance measure	1998	1999	2000	2001
Financial benefits (billions)	\$7.5	\$9.8	\$11.8	\$11.9
Other benefits	114	129	154	177
Recommendations made	245	278	336	367
Testimonies	110	110	121	114

#### 2-Year Qualitative Performance Goal Results

Performance measure	Met	Not met	In progress
2000-2001: 42 goals	88%	12% <sup>h</sup>	
2002-2003: 37 goals			100%

**Strategic Goal 2**

*Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence*

**Annual**

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$5.8	\$3.0	\$5.5	\$5.1	\$10.5	\$7.8 <sup>a</sup>	\$7.6 <sup>a</sup>
Other benefits	73	80	129	162	188	178 <sup>b</sup>	192
Recommendations implemented <sup>c</sup>	76%	65%	84%	75%	81%	75%	77%
Recommendations made	242	255	376	283	618	460 <sup>b</sup>	485
Testimonies	45	37	56	36	34	49 <sup>b</sup>	55

**4-Year Average**

Performance measure	1998	1999	2000	2001
Financial benefits (billions)	\$7.4	\$6.3	\$6.0	\$6.2
Other benefits	50	65	90	118
Recommendations made	272	266	279	373
Testimonies	38	40	46	43

**2-Year Qualitative Performance Goal Results**

Performance measure	Met	Not met	In progress
2000-2001: 20 goals	95%	5% <sup>h</sup>	
2002-2003: 21 goals			100%

### Strategic Goal 3

*Support the Transition to a More Results-Oriented and Accountable Federal Government*

#### Annual

Performance measure	1998 Actual	1999 Actual	2000 Actual	2001		2002 Target	2003 Target
				Target	Actual		
Financial benefits (billions)	\$4.6	\$4.5	\$5.1	\$5.3	\$7.0	\$5.3 <sup>a</sup>	\$4.6 <sup>a</sup>
Other benefits	311	414	503	342	401	374 <sup>b</sup>	375
Recommendations implemented <sup>c</sup>	65%	78%	77%	75%	85%	75%	77%
Recommendations made	460	335	413	343	549	381 <sup>b</sup>	356
Testimonies	96	100	105	43	42	58 <sup>b</sup>	62

#### 4-Year Average

Performance measure	1998	1999	2000	2001
Financial benefits (billions)	\$5.2	\$5.7	\$5.7	\$5.3
Other benefits	200	274	361	407
Recommendations made	332	355	383	439
Testimonies	75	79	90	86

#### 2-Year Qualitative Performance Goal Results

Performance measure	Met	Not met	In progress
2000-2001: 15 goals	100%	0% <sup>h</sup>	
2002-2003: 20 goals			100%

### Strategic Goal 4

*Maximize the Value of GAO by Being a Model Organization for the Federal Government*

#### 2-Year Qualitative Performance Goal Results

Performance measure	Met	Not met	In progress
2000-2001: 17 goals	76%	24% <sup>h</sup>	
2002-2003: 19 goals			100%

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# Appendix II

## *Accomplishments and Other Contributions for Fiscal 2001*

In pursuing its strategic goals during fiscal 2001, GAO recorded hundreds of accomplishments and made numerous other contributions. This appendix provides details on the most significant.

The accomplishments document financial or other benefits achieved through action on GAO's findings or recommendations. Typically, the accomplishments describe GAO work that was done in prior fiscal years because it takes time to implement recommendations, realize benefits, and record them.

The other contributions describe instances in which GAO provided information or recommendations that aided congressional decision making or informed the public debate to a significant degree. Typically, the other contributions refer to GAO work completed in fiscal 2001.

In reporting these accomplishments and other contributions, GAO is holding itself accountable for the resources it received from the Congress to implement its strategic plan.

### *Strategic Goal 1*

*Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People*

#### **The Health Care Needs of an Aging and Diverse Population**

*Improving Medicare Debt Collection:* In response to a congressional request, GAO identified a multibillion-dollar backlog of uncollected, delinquent Medicare debt owed by providers. The backlog was the

result of limited efforts by Medicare's administering agency to refer such debt for collection. In response to GAO's recommendations, the Centers for Medicare and Medicaid Services instructed its claims administration contractors to (1) accelerate referral of uncollected, delinquent debt by referring debts as soon as they became delinquent; (2) increase the number of debts to be referred by lowering the dollar limit of eligible debt to \$25; and (3) eliminate the backlog by the end of fiscal 2002.

#### *Modernizing Medicare's Contracting of Claims Administration:*

GAO's congressionally requested work on the contracting of Medicare's claims administration identified challenges for contracting reform, resulted in the administering agency's improved contract management, and pointed out potential benefits to removing restrictions and introducing competition to improve contractor performance. On December 4, 2001, the House passed legislation that would require competition and contractor performance standards for accuracy of payments and communications with providers, beneficiaries, and suppliers. Contracting reform legislation is currently pending in the Senate.

#### *Protecting Patients in Mental Health Facilities:*

GAO pointed out the dangers to patients from the use of restraint and seclusion in mental health facilities; poor reporting of serious incidents; and the uneven protection afforded to patients in differing residential treatment settings. This work informed the Congress and set the stage for the passage of the Children's Health Act of 2000 (P.L. 106-310). The act specifies the circumstances in which restraint and seclusion can be used, requires facilities to notify the appropriate agency of restraint- or seclusion-related deaths, and requires facilities to train staff in the use of restraints and alternatives to them. In addition, the Centers for Medicare and Medicaid Services cited GAO's work in its regulations that established standards for the use of restraint or seclusion in psychiatric residential treatment facilities. The regulations require such facilities to inform state



authorities of any deaths or serious injuries involving seclusion or restraint, as well as informing the Centers of any deaths.

*Informing Deliberations to Sustain and Improve Medicare:* GAO informed policy deliberations through work that provided both a comprehensive view of Medicare and detailed analysis of key program elements. GAO's work highlighted the substantial financial challenge associated with providing Medicare benefits to the baby-boom generation. GAO also aided discussions focused on modernizing Medicare's benefit package by providing information on such issues as beneficiaries' spending for prescription drugs, Medicare's cost-sharing arrangements, and private supplemental (Medigap) insurance policies. Finally, GAO's work underscored the importance of having an effective and efficient Medicare agency to carry out any adopted reforms.

*Helping to Prevent Medicare Billing Abuses:* GAO investigated medical billing consultants who offered advice to health care providers on ways to enhance revenue and avoid audits that could result in violations of both civil and criminal statutes. In seminars and workshops, certain presenters advocated not reporting or returning Medicare overpayments, encouraged tests and procedures that were medically unnecessary, and advised health care providers of ways to discourage patients with low-paying insurance plans, such as Medicaid. GAO's testimony before the Senate Finance Committee brought the matter to the attention of the inspector general of the Department of Health and Human Services (HHS), who issued a special advisory bulletin warning health care providers to beware of unscrupulous consultants who advocate program abuses and the types of problems that could result from such practices. The Justice Department has also identified this issue for further investigation.

*Reducing the Number of Uninsured Americans:* In two testimonies in March 2001, GAO reported on the trends and characteristics of the approximately one in six Americans younger than 65 who do not have health insurance and on an overview of potential approaches to expand public and private health insurance coverage. GAO reported that success in increasing coverage for the diverse uninsured populations will depend on whether tax subsidies to promote purchasing private insurance are large enough and available when needed and whether states use

new flexibility in public programs to cover uninsured residents and develop effective outreach to enroll targeted populations. The Congress used GAO's analyses in highlighting the extent of uninsured individuals and in considering tax credits and public program expansions to provide more Americans with health coverage.

*Curtailling Fraud and Abuse in the Military Health Care System:* In 1998, GAO initiated an effort to identify shortcomings in the actions the Department of Defense (DOD) took to detect and prevent fraud and abuse in its health care system. GAO's work showed that DOD and its contractors have paid little attention to fraud and abuse issues and that DOD could be losing hundreds of millions of dollars because of fraudulent activities. In response, DOD has made combating fraud and abuse an initiative in its strategic plan and is requiring contractors to develop a corporate antifraud strategy, utilize anti-fraud software, and develop an antifraud training program. DOD's efforts are producing results—in 2000 its computerized claim checks have resulted in savings of \$130 million, and recovery of inappropriate payments are in the hundreds of millions of dollars.

*Cutting Federal Pharmaceutical Procurement Costs:* In May 2000, GAO testified that increased joint pharmaceutical purchasing by DOD and Department of Veterans Affairs (VA) could lead to annual cost avoidance in the hundreds of millions of dollars. Yet, the agencies perceived obstacles to expanding joint procurement and were having difficulties working together. In response, the Congress took action to encourage greater cooperation, citing GAO's findings as the basis for passing the Veterans Benefits and Health Care Improvement Act of 2000. This law encourages the two agencies to increase, to the maximum extent consistent with their respective missions, their level of cooperation in procuring and managing drugs. By May 2001, the agencies were working more cooperatively and had agreed to perform another 130 joint procurements, which they estimate will yield \$220 million in cost avoidance in fiscal 2001 and 2002 alone.

*Understanding Current and Emerging Health Workforce Shortages:* GAO's work on health workforce issues supported congressional decision-making on efforts to address both the current and projected supply of health workers. By compiling

comprehensive data on a broad range of health care professions and employment settings, GAO assisted the Congress in critically evaluating the nature and extent of current claims of health workforce shortages. It also informed the debate on health legislation that several congressional committees were considering. Moreover, GAO identified several opportunities for the federal government to support critical data gathering and evaluation efforts in anticipation of demographic pressures that will both increase the demand for health care services and limit the supply of potential workers in the near future.

***Increasing Pediatric Drug Research:*** The Congress attempted to stimulate pediatric drug research in 1997 by authorizing 6 months of additional marketing exclusivity for drugs tested by manufacturers for use in children. This exclusivity provision of the Food and Drug Administration Modernization Act was to sunset on January 1, 2002. To provide the Congress with detailed information on the effect of the provision, GAO examined manufacturer response since the enactment of the provision. In May 2001 testimony, GAO reported on the increases in the number of drugs studied in children. GAO also highlighted several remaining challenges to ensure that the results of pediatric research are expeditiously incorporated into drug labels and that incentives are provided to encourage pediatric studies of older off-patent drugs widely used in children. Subsequently, in part because of our work, the Congress passed the Best Pharmaceuticals for Children Act, which was signed into law on January 4, 2002. This act (1) extends the exclusivity provision until 2007, (2) requires safety information from pediatric studies to be added to drug labels in a timely manner, and (3) creates a fund and process to ensure that older off-patent drugs are studied in children.

***Improving Food Safety:*** Over the years, public awareness of foodborne illness outbreaks has heightened concerns about the effectiveness of the federal system for ensuring the safety of the nation's food supply. GAO has served as an honest broker of information on the shortcomings of the federal food safety system. In particular, GAO's work has been used extensively in congressional deliberations and by federal program managers to improve the food safety system. For example, GAO's work on seafood safety identified several important weaknesses that compromised the overall effectiveness of the Food

and Drug Administration's newly implemented science-based system for seafood. In response, the agency made improvements in 2001 to the science-based system. GAO's work identifying shortcomings in shellfish safety was instrumental in the 2001 adoption of the first national plan to reduce pathogenic bacteria in oysters.

***Strengthening Medicare's Information and Technology:*** GAO identified numerous problems in the management of the \$220 billion-plus Medicare program that were created or exacerbated by poor information. GAO's work has helped to focus HHS's Centers for Medicare and Medicaid Services on improving its information technology and management. The secretary of HHS has made the modernization of Medicare's information technology a priority and dedicated \$36 million in funding for it in the fiscal 2002 budget. After several reports documenting the poor state of its financial information, the Centers have also begun a major effort to overhaul their financial management and accounting systems. In response to GAO's work, the Centers also began to improve the process for managing technology change, including developing guidance to implement more structured controls for selecting and reviewing technology investments.

***A Secure Retirement for Older Americans***  
***Improving Operations and Customer Service at the Social Security Administration:*** The Social Security Administration (SSA) is improving aspects of its operations and service to its customers as a result of GAO's work and recommendations. For example, in response to GAO's assessment of the policies and processes associated with paying attorneys representing disability claimants, the agency is considering changes that will result in attorneys' being paid more quickly. In addition, SSA has begun making improvements to letters it sends to applicants for and recipients of benefits. GAO previously found that certain letters did not clearly explain key points about an individual's eligibility and therefore recommended changes to provide better information to applicants and benefit recipients. Finally, in response to GAO's recommendations, SSA continues to improve its workforce planning, such as by developing strategies for dealing with the impending retirement of its staff and managers over the next decade.

*Evaluating Proposed Social Security and Private Pension Reforms/Protecting Retirement Benefits:* GAO provided useful information to aid congressional consideration of various Social Security and pension reform proposals as well as to assist agencies to better protect retirement benefits. GAO continued to provide insights on the implications of Social Security reform proposals, including individual accounts, workers' benefits, trust fund solvency, and private pensions. Our work describing the characteristics of workers without pensions helped foster a greater understanding of the gaps in pension coverage and was cited in the debate over recently enacted pension reform legislation. Our work on the Department of Labor's (DOL) implementation of the SAVER Act identified opportunities for DOL to improve its retirement savings education efforts. In response to our recommendations on cash-balance plans, the Congress enacted enhanced disclosure requirements when plan amendments can significantly reduce future benefits. Furthermore, as we recommended, the Internal Revenue Service is developing guidance clarifying the regulatory treatment of cash-balance plans.

#### **The Social Safety Net for Americans in Need**

*Improving Veterans Affairs' Oversight of Contract Nursing Homes:* In response to a House and Senate request, GAO reported in July 2001 significant weaknesses in the VA's oversight of community nursing homes where veterans receive care at the agency's expense. The weaknesses included instances in which the agency had not performed required inspections of such homes. As a result of our work, VA agreed to improve its oversight procedures by monitoring a facility's compliance with the inspection requirements and by training its staff. The agency should thus have better assurance that veterans in community nursing homes receive care that is of acceptable quality.

*Increasing Low-Income Children's Access to Preventive Health Services:* In a series of reports, GAO found that most low-income children served by the federal/state Medicaid program are not receiving screenings for dental problems and lead poisoning, despite their higher risk for these problems. As a result, key federal agencies have changed policies, improved oversight, and increased state education efforts to improve these services. As part of the continuing effort to improve services for children in

Medicaid, GAO most recently reported on the limited federal support and oversight of state actions to provide comprehensive preventive health services under Medicaid, known as early and periodic screening, diagnostic, and treatment services. GAO recommended stronger efforts to ensure children receive these services.

*Helping to Prevent Excess Food Stamp Funding:* GAO examined the Department of Agriculture's budget request for fiscal 2001 and found that it was requesting \$1.9 billion in funding for the Food Stamp Program in excess of past needs. In briefings before the House Committee on Appropriations, GAO pointed out that the agency was requesting at least \$1 billion more than was needed for food stamp benefits. GAO's estimate was based on the continued decline for many years in food stamp participation rates and the likely further decline or the same participation rate due to the relatively strong economy. Additionally, GAO pointed out that Agriculture was requesting \$1 billion for contingency reserves for the program, which was \$900 million more than the Congress had provided in the 2 prior fiscal years. As GAO suggested, the Congress provided Agriculture \$1 billion less than it had requested for food stamp benefits and provided only \$100 million for the Food Stamp Program's contingency reserve.

*Improving the Integrity of the Supplemental Security Income Program:* GAO continued to highlight concerns over improper payments under SSA's Supplemental Security Income Program—one of the programs GAO considers "high-risk." GAO's prior work shows that this program, the nation's largest cash assistance program for the poor, has experienced long-standing problems in ensuring that only eligible individuals receive benefits. In January 2001, GAO reported that overpayments and outstanding debt for fiscal 1999 were in excess of \$3.8 billion and that SSA had waived as uncollectible almost \$500 million. In June 2001, GAO reported mixed success in the agency's meeting current performance goals intended to reduce fraud, waste, and error in this program and pointed out a number of corrective actions that should be taken. In response to concerns raised by GAO, SSA has taken steps over the last several years to strengthen program integrity. However, continued progress will require that the agency sustain focus on addressing the very real management challenges that the program presents.

**Improving Services to Disabled Veterans:** With its work over the years, GAO is in the forefront in identifying ways to improve federal disability programs and is relied upon by the Congress in making policy decisions. For example, the Senate Committee on Appropriations, in a report accompanying the Treasury and General Government Act of Fiscal Year 2002, refers to a 2001 congressionally requested GAO report on the National Personnel Records Center. The report requires the Records Center to follow GAO's recommendation to develop a plan to show how it will eliminate delays in responding to veterans' requests for records generally needed for disability claims. In a report accompanying the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of Fiscal Year 2002, the House Appropriations Committee refers to GAO's recent report on the Veterans Benefits Administration. The report directs VA to implement GAO's recommendation to develop a comprehensive training plan that includes criteria for determining the effectiveness of the training for processing disability claims.

**Reducing the Federal Cost of Housing Assistance:** GAO's congressionally mandated report and testimony in June and July 2001 played a significant role in the Congress's decision to extend the Department of Housing and Urban Development's (HUD) mark-to-market program. The program aims to preserve the affordability of low-income rental housing while reducing the federal cost of rental assistance. GAO cited the likelihood of defaults on mortgages resulting in large claims against the Federal Housing Administration (FHA) insurance fund if the program was terminated. The Department's fiscal 2002 appropriations bill contained provisions consistent with our recommendation to extend the program.

### **An Educated Citizenry and a Productive Workforce**

**Improving the Efficiency of Early Education Programs:** In response to a congressional request, GAO identified several groupings of federal programs that appear to have similar objectives and provide similar services to similar types of children under age 5. GAO's work has shown that such overlap can create an environment in which programs do not serve participants as efficiently as possible. On the basis of its review of four bilingual education programs, GAO suggested that the Congress consider consolidating them into a single program to improve administra-

tive efficiency and reduce grantee burden. The No Child Left Behind Act of 2001 consolidated these four programs into a single program carried out through formula grants to states.

**Reducing the Federal Budget:** GAO's review of the president's budget proposal for the Departments of Education and Labor resulted in reductions in existing programs and the elimination of duplicative programs totaling over \$1.1 billion. In reviewing Education's budget proposal, GAO identified nine new programs with a total of \$860 million in requested funds that provided services similar to those in already-funded programs. Based on the basis of this work, these new programs were not funded. Similarly, GAO reviewed DOL's budget proposal and found that the agency's \$255 million Fathers Work/Families Win initiative could be met through existing programs. In light of this information, DOL did not receive funding for this initiative.

**Targeting Funds to Disadvantaged Children:** GAO conducted a review to address congressional concerns about the extent to which federal Title I Education funds are allocated to states, school districts, and schools with higher numbers and percentages of students from low-income families. GAO collected data on the funds distributed to the over 14,000 school districts across the country as well as data on their enrollment of poor children. Analyzing these and other data, GAO informed the Congress about the degree to which funds reach higher-poverty states, school districts, and schools; how funds might be further targeted; and the consequences of making changes to the program. This timely information helped to focus attention on these important issues as the Congress deliberated reauthorization of the Elementary and Secondary Education Act.

**Improving the Effectiveness of Technology Funding for Schools and Libraries:** GAO's May 2001 report caps a long-standing effort to put on sound operational footing the annual \$2.25 billion Schools and Libraries Program that subsidizes the cost of providing telecommunications services, access to the internet, and the equipment needed to deliver these services. GAO identified weaknesses that resulted in millions of dollars being awarded for ineligible products and services, funds committed to some projects going unused while other requests went unfilled, and a lack of effective program oversight. In response to GAO's recommendations, program offi-

cials implemented measures to eliminate ineligible requests, ensure that funds are either used promptly or recovered, and expanded an in-house audit group's capacity to review whether funds were being used in accordance with program rules.

*Providing Better Data on Student Loan Costs:* The cumulative amount of funds disbursed under the Federal Direct Loan Program has continued to grow, reaching an outstanding gross balance of over \$46 billion at the end of fiscal 1999. To address congressional concerns about the Department of Education's ability to accurately project future program costs, GAO analyzed Education's cost-estimation methodology and identified a number of limitations. In response, Education has begun taking steps to address several GAO recommendations. When completed, these changes will allow Education to provide better data to inform program and congressional decision makers about future costs.

### **An Effective System of Justice**

*Addressing Election Policy Issues:* GAO, in a March 2001 report, provided the Congress with an extensive analysis of the constitutional authority under which the Congress may legislate regarding federal and state elections. The report also described current federal statutory provisions relating to election administration. In other work on election reform, GAO conducted a 50-state review of state statutes, regulations, and policies on disabled access requirements and alternative voting methods. It also conducted a nationwide analysis of election requirements in areas such as recounts, absentee voting, registration, and provisional ballots, providing useful information to congressional decision makers. We also issued a capping report in early fiscal 2002 that discusses (1) how the constitutional and operational division of federal and state authority to conduct elections has resulted in great variability in the ways elections are administered nationwide, (2) the main challenges election officials face in all major parts of the elections systems, and (3) basic criteria for assessing a range of election reform proposals. Our work was instrumental in enabling the House and Senate to develop election reform proposals.

*Demonstrating Weaknesses in the National Instant Criminal Background Check System:* GAO demonstrated for congressional members the difficulty that law enforcement officials face in preventing illegal

firearms purchases. Acting in an undercover capacity, GAO investigators used bogus identification to purchase arms and ammunition from gun stores and pawnshops in five states across the country. GAO's work revealed a significant weakness in the Brady Act's National Instant Criminal Background Check System. The check is a negative one in that it does not positively verify the identity of purchasers, only whether the identification provided matches a felon or other person prohibited from possessing a firearm. Investigators also found an additional loophole in the act that exempts purchasers of antique firearms—those not manufactured within the past 100 years—from an otherwise required background check.

*Improving the Justice Department's Response to Diffuse Threats to National and Global Security:* In response to congressional requests, GAO contributed to the debate over the Justice Department's response to national and global security issues, such as international crime, counterintelligence, and terrorism. GAO concluded that the overall federal response risked being inefficient and ineffective because federal agencies, including Justice, did not engage in sustained executive-level coordination. Within Justice, coordination was limited between the Federal Bureau of Investigation and the Criminal Division on foreign counterintelligence investigations involving suspected criminal violation. Justice has implemented key GAO recommendations for improving intradepartmental coordination. In addition, GAO's call for centralized leadership for international crime and terrorism was consistent with the recent establishment of the Office of Homeland Security. Finally, GAO provided input to Justice's draft of the Anti-Terrorism Act of 2001 in the areas of electronic surveillance authority and the detention of suspected terrorists.

*Improving Immigration Management:* Since the early 1990s, GAO has issued reports citing recurring management challenges at the Immigration and Naturalization Service (INS) as impeding its ability to effectively enforce the nation's immigration laws, combat terrorism, and provide services to legal immigrants. GAO reported challenges related to the agency's organizational structure and chronic problems with its ability to balance competing priorities, manage communications and coordination functions, develop and field information technology, and manage its programs. The Congress is considering

various options for restructuring INS so it can better carry out its missions. GAO's reports and recent congressional testimonies have indicated that unless INS's fundamental management problems are addressed, its effectiveness will be limited, regardless of how it is structured.

*Improving the Security of the Federal Judiciary:* In response to GAO's recommendations, the U.S. Marshals Service, the General Services Administration (GSA), and the judiciary have taken and are continuing to take a number of actions to improve security for federal court facilities, judges, and support personnel. Improvement efforts have focused on ensuring that each judicial district has a functioning security committee and that building entrance and perimeter security needs are addressed. Additionally, collaborative interagency efforts have addressed the off-site security needs of federal judges, including security at judges' residences and while judges are in a travel status.

#### **Investment in Community and Economic Development**

*Identifying Economically Distressed Areas for Tax Relief:* The Community Renewal Tax Relief Act of 2000 authorized the designation of up to 40 renewal communities in distressed areas nationwide for tax relief. Since the act's promulgation in December 2000, GAO has worked closely with HUD, as well as numerous communities, to share information on economically distressed areas that would qualify for the program. Legislation specified that the designations take into account whether the nominated area was identified in GAO's May 12, 1998, report on such areas. GAO provided HUD with a list of the identified census tracts from the report, which HUD subsequently posted on a Web page. In addition, over a half dozen communities have contacted GAO directly to obtain this information.

*Improving Farm Programs:* GAO assisted the Congress in its deliberations over the next farm bill by providing detailed, objective analyses on a wide range of farm issues, helping to inform and shape the debate on various pieces of proposed legislation. GAO analyzed how farm payments have historically been distributed and how changes to current formulas would affect these payments. In addition, GAO examined the major barriers facing those who wish to enter farming. In addressing significant dairy issues, GAO provided analyses of the economic

effects of interstate dairy compacts and factors affecting milk prices, including changing market structure and imports, domestic production, and regulation of ultrafiltered milk. GAO's scrutiny of Agriculture's fiscal 2001 budget request resulted in about \$180 million in dollar savings. Largely on the basis of GAO's work, the Congress declined to provide the \$120 million requested for the Initiative for Future Agriculture and Food Systems and \$60 million requested for the Fund for Rural America.

*Improving the Reliability of Cell Phone Safety Testing:* GAO's congressionally requested work on the safety of mobile phones noted that a lack of uniform testing standards was partially responsible for variances of 50 to 60 percent in measurements of the amount of radio-frequency energy that could enter the body. These inconsistent results led to uncertainty as to whether tested phones comply with the exposure limits set by the Federal Communications Commission (FCC). Consistent with GAO's recommendations, FCC issued new guidance containing detailed testing procedures.

*Providing a Framework for Financial Assistance to the Airlines:* As the financial difficulties of the nation's airlines escalated in the wake of the September 11 terrorist attacks, the Congress considered proposals to provide financial assistance. The comptroller general's September 20, 2001, testimony laid out a series of issues to consider in structuring financial assistance to the airlines. Just 48 hours after the hearing, the president signed into law a \$15 billion financial aid package that included several of the safeguards GAO had suggested. The legislation also created an Air Transportation Stabilization Board to oversee the loan guarantee provisions and named the comptroller general a nonvoting member of the four-member board.

*Helping the Congress Address Challenges to Airline Competition:* GAO reported and testified on the impact on consumers of significant developments within the U.S. domestic airline industry that could limit competition among air carriers. GAO analyzed the potential effects of two separate airline mergers. One of these was United Airlines' proposed merger with US Airways, which was subsequently challenged by the Justice Department and then abandoned by the carriers, and the other was American Airlines' purchase of Trans World Airlines. GAO's analyses highlighted the millions of passengers who

might benefit from or be harmed by industry consolidation. These analyses supported legislative proposals to clarify federal authority to act against situations that may hamper competition.

***Contributing to the Debate on the Disadvantaged Business Enterprise Program:*** GAO reported in June 2001 on its congressionally mandated review of the Department of Transportation's Disadvantaged Business Enterprise Program—designed to remedy the effects of current and past discrimination of socially and economically disadvantaged owners. GAO provided original data that have and will continue to contribute to the program's reauthorization debate and were cited in legal briefs in the Supreme Court case concerning the program's constitutionality. GAO noted that a lack of key information prevents anyone from understanding the characteristics of firms that participate in the program and how they compare with the rest of the transportation contracting community.

***Strengthening Oversight to Deter Insurance Scams:*** GAO investigated the regulatory response to the \$200 million insider insurance fraud and identified nine weaknesses in regulatory oversight and supervision of insurance companies. As a result of GAO's 2000 report, testimony, and several briefings to state insurance departments, the National Association of Insurance Commissioners took several actions, including adding requirements to its accreditation program to ensure better monitoring of performance by asset custodians. In addition, individual states made changes to the state regulatory procedures that improved state oversight of the insurance industry.

***Improving Oversight of Activities to Identify Money Laundering:*** GAO reported in March 2001 on gaps in the oversight of suspicious activity reports, which banks and their broker-dealer subsidiaries are required to file. These reports indicate potential money laundering activities used to disguise illicit income to make it appear legitimate. GAO's congressionally requested report prompted the Securities and Exchange Commission (SEC) to perform an examination sweep of anti-money-laundering practices at all broker-dealer firms. SEC also renewed negotiations among financial regulators on a draft suspicious activity reporting rule for the securities industry.

***Improving Debt Collections for Securities Violations:*** GAO found that SEC was unable to collect \$250,000 in past-due fines of violators of the securities rules because it lacked a process to ensure timely approval of collection agreements negotiated by the Treasury Department's debt collection unit. For a fine to be an effective deterrent, SEC must collect it. Following GAO's work, SEC took immediate steps to improve the process it uses to submit these fines for collection by Treasury.

***Improving Securities Arbitration:*** GAO reported in June 2000 on the securities arbitration process, revealing that a significant proportion of awards against brokers had not been paid to investors. The congressionally requested work compelled regulators to establish procedures to help enforce the payment of arbitration awards and provide investors with options when faced with the possibility of unpaid awards. The regulators also now provide information about that possibility on their Web sites. In addition, the work resulted in improved training programs and selection procedures for arbitrators. As a result, investors now stand a better chance of being paid their awards and have better reason to have confidence in the fairness of arbitration.

## **Responsible Stewardship of Natural Resources and the Environment**

***Restoring the Florida Everglades:*** Restoring the South Florida ecosystem, which includes the Everglades, is one of the most significant and complicated environmental initiatives ever undertaken. GAO found that the ability to accomplish the ecosystem's restoration in a timely and efficient manner was highly dependent on the South Florida Ecosystem Restoration Task Force's developing and implementing a strategic plan that would serve as a blueprint for the restoration effort. Following oversight hearings held on the status of the restoration effort, the Congress called GAO's findings compelling and mandated that the Task Force develop and implement the strategic plan GAO recommended. The Task Force submitted its initial strategic plan in July 2000 and agreed with GAO's 2001 assessment that the plan needed further refinement. It plans to include the refinements in its 2002 update. As a result, the Task Force will be able to work with the agencies participating in the restoration effort to establish appropriate priorities and milestones for accomplishing the entire restoration effort. The

updated plan will also allow the Task Force to gauge the progress being made and make needed adjustments when warranted.

*Reducing the Risk of Severe Wildland Fires on Federal Lands:* From September 1998 through September 2001, GAO issued a report and testified four times on the need to reduce the buildup of brush, small trees, and other hazardous vegetation that fuel severe wildland fires. As a result of our work, (1) the Congress appropriated \$401 million in fiscal 2001 funds to reduce such hazardous fuels and appropriated another \$395 million for fiscal 2002; (2) the Forest Service finalized a cohesive strategy to reduce the threat of wildland fires, and the Department of the Interior drafted a companion strategy; and (3) the Forest Service developed better measures of its progress in reducing the threat of wildland fires. GAO also testified in July 2001 on the need for the administration and the Congress to consider alternative organizational structures better suited to address this issue, which transcends the administrative boundaries of the various federal land management agencies involved.

*Establishing a Common Understanding on the Treaty of Guadalupe Hidalgo:* Under the Treaty of Guadalupe Hidalgo, which ended the Mexican-American War, the United States agreed to recognize ownership of property of every kind, including Spanish land grants to towns and individuals, in ceded areas that now constitute the American Southwest. Whether the United States protected the property of Mexican-Americans and their descendants, particularly the common lands of community grants, has been a controversial issue for generations. In a 2001 congressionally requested report, GAO defines the concept of community land grants and identifies the types of community land grants in New Mexico. Issued in both English and Spanish, the work provides New Mexico, scholars, and the land grant community with the most complete listing to date of all the grants made by Spain.

*Assessing the Challenges in Energy Policy and Electricity Restructuring:* The White House released a National Energy Policy blueprint that called for sweeping energy policy changes, and the Congress has been in a heated debate on what changes are needed. To help the Congress, GAO provided insights on ways to better manage the Clean Coal research and development program, causes of gaso-

line disruptions and high fuel prices, the importance of alternative motor fuels and vehicles, and the role of tax incentives in energy policy. GAO also testified and reported on major problems in the electricity industry. With restructured electricity markets in California exhibiting problems of unprecedented disruptions, high wholesale prices, and sharp limitations on the availability of electricity, GAO offered reports, testimonies, and a series of briefings to the California member delegations. This body of work suggested ways to increase supply, improve Federal Energy Regulatory Commission oversight of electricity markets, and enhance energy market information and assessments. GAO is also assisting the Congress in examining deregulation issues in other states and federal responsibilities to ensure safe and reliable electricity service.

*Controlling Pollution:* GAO's work on pollution control issues has resulted in both tangible program impacts as well as significant budgetary savings. For example, in a series of reports and testimonies, GAO documented serious deficiencies in states' water quality monitoring programs and recommended that the Environmental Protection Agency (EPA) improve the information collected on water quality conditions across the country. EPA and the Congress have since responded with steps designed to improve the quality and consistency of state monitoring programs. Taken together, these actions are expected to improve the prospects that the right waters will be targeted for cleanup, saving millions of dollars and ensuring that scarce resources are applied where they are most needed. In another example, GAO recommended reduced appropriations across an array of environmental programs, including EPA's Climate Technology Initiative, Clean Air Partnership Fund, and the Great Lakes Cleanup Grants. As a result, over \$400 million in savings was achieved without compromising important environmental objectives.

*Reducing Federal Superfund Costs:* In response to GAO recommendations, EPA adopted a new method to calculate the costs it incurs to operate the Superfund hazardous waste cleanup program. Under Superfund liability rules, if the parties responsible for contaminating a waste site refuse to pay for cleanup, the agency can pay and subsequently recover its costs from the parties. In the past, the agency did not include many of its operating, or indirect, costs in its cost-recovery efforts. The agency estimates



that doing so will enable it to pursue the recovery of up to \$600 million on those cleanups currently awaiting a final settlement with the responsible parties and on average about \$100 million per year on future cleanups.

**Reducing Nuclear Waste Treatment Costs:** Starting in 1996, through a series of reports and testimonies, GAO questioned the reasonableness of the Department of Energy's (DOE) "privatized" approach to treating liquid high-level radioactive wastes at its Hanford, Washington, site. Under this approach, financing and constructing treatment facilities would have cost at least \$8 billion. In June 2000, GAO reported that DOE's privatized approach had not been successful for other complex cleanup projects and suggested that DOE reassess the cost effectiveness of this approach at Hanford, including analyzing different contracting and financing alternatives. Subsequently, DOE terminated its privatized contract because of dramatic cost growth and contractor performance problems. Consistent with GAO's suggestions, DOE assessed alternative contracting and financing strategies and awarded a new contract in December 2000. It expects to save about \$1.3 billion in fiscal 2001 and 2002 and expects additional savings in future years.

### **A Safe and Efficient National Physical Infrastructure**

**Improving Efficiency of Funding for New Transit Projects:** Under a congressional mandate, GAO reported in August 2001 on the Federal Transit Administration's New Starts Program, which provides full-funding grants for urban mass transportation. The results of GAO's analysis and recommendation on the process for managing funding commitments for new starts could allow about \$650 million to be redirected to other meritorious projects. In particular, GAO found that the agency has continued to dedicate previously committed funding to a large project that has been delayed for years, formally suspended, and completely redesigned. These funds could be used for other new start projects if the agency released these funds.

**Improving Capital Planning for the Washington Metropolitan Area's Public Transit System:** In response to a request by the Subcommittee on the District of Columbia, House Committee on Government Reform, GAO reviewed the Washington Metro-

politan Area Transit Authority, which operates subway and bus service in the Washington, D.C., area. GAO reported in 2001 that the Authority—which has experienced problems related to safety and reliability of its transit services—could benefit from an improved capital decision making framework that is more in line with industry best practices. For example, GAO recommended that the Authority develop a long-term capital plan that, among other things, defines each project's justification, costs, schedule, performance requirements, benefits, and risks. In response to our recommendations, the authority is making significant improvements to its strategic and capital planning processes.

**Evaluating Estimates of the Nation's Infrastructure Needs:** The Senate Committee on Environment and Public Works is using GAO's work as a first step in developing an overall estimate of the nation's infrastructure needs. GAO's July 2001 report and testimony for subcommittees of the Senate Committee on Environment and Public Works pointed out that federal agencies vary in the methodologies they use to estimate future infrastructure investment needs. Thus, the individual totals cannot simply be "added up" to produce a national estimate. GAO also discussed the strengths and weaknesses of the different methodologies used for water resources, drinking and wastewater treatment, airports, highways, mass transit, and public buildings.

**Improving Coast Guard Procurement Practices:** For the past 4 years, GAO has been working with Coast Guard officials and the Congress to provide advice and guidance as the Coast Guard plans its \$10 billion Deepwater Project—procurement of ocean-going ships and aircraft to replace its aging fleet. In response to GAO's congressionally requested work, the Coast Guard extended the service life of various classes of ships and aircraft by 5 to 28 years. In its most recent report and testimony, GAO identified potential risks dealing with funding, controlling costs, program management, and unproven technology. In response to GAO recommendations, the Congress and the Coast Guard have developed plans to deal with each of these risks.

**Improving the Federal Aviation Administration's Oversight of Air Traffic Control Modernization:** The Federal Aviation Administration (FAA) is addressing critical issues in its investment plans for the Wide Area Augmentation System—a key component in its

planned transition from ground-based navigation to satellite-based navigation aimed, in part, to provide safer landing capabilities. In response to a request from the Subcommittee on Transportation, Senate Committee on Appropriations, GAO pointed out in June 2000 that, due to technical issues and inadequate oversight, cost increases could approach \$1 billion and completion could require an additional 9 years. Consistent with our recommendations, FAA has begun to use expert panels and other outside expertise to identify needed technical changes and to provide independent technical oversight.

*Reducing the Federal Aviation Administration's Budget:* GAO assisted the Senate and House Appropriations Committees, Subcommittees on Transportation, with FAA budget mark-ups. In briefings, GAO identified several facilities and equipment projects and an operations account budget item as candidates for budget reductions. On the basis of our analysis, the House and Senate Appropriation Committees reduced FAA's fiscal 2001 budget by \$90 million.

*Reframing the Debate on Amtrak's Future:* GAO's 2001 report and testimonies on the future of Amtrak and potential funding mechanisms helped reframe the debate around the larger issue of the role of intercity passenger rail in the United States. In response to multiple congressional requesters, GAO reported that intercity passenger rail plays a very small role in the nation's transportation system today. GAO suggested that before the Congress commits considerable sums of money to these systems, it closely examine and formulate realistic expectations of the benefits and costs of intercity passenger rail as compared to investments in other modes of transportation.

*Addressing the Postal Service's Transformation Challenges:* The comptroller general testified twice—in April and May 2001—before House and Senate Committees on the Postal Service's growing financial, operational, and human capital challenges and the increasingly competitive environment in which it operates. GAO testified that these major challenges call for a structural transformation in the Postal Service if it is to remain viable. Additionally, GAO added the Postal Service's financial outlook and transformation process to the High-Risk List. The designation helped to focus needed attention on the

dilemmas facing the Postal Service before the situation escalated into a crisis where the options for action would be more limited and costly.

*Improving Federal Facilities Management:* In response to a congressional request, GAO identified the potential benefits to the federal government of GSA—which has a large backlog of deferred maintenance on its multibillion-dollar real estate profiles—entering into public-private partnerships on real property. The Congress reintroduced legislation and GSA revised its proposed legislation on the basis of our July 2001 report. Additionally, in response to this report, GSA has contracted for an in-depth feasibility study for one of the properties GAO reviewed and has renewed discussions with local officials about exchanging another property GAO reviewed for a city-owned property.

*Focusing Attention on Health and Safety Issues in Government Buildings:* GAO's report, done at the request of a subcommittee of the House Committee on Transportation and Infrastructure, provided ample evidence that many federal buildings have health- and safety-related concerns because timely repairs are not being made. GAO recommended that GSA reexamine the weighting of health and safety criteria to ensure that projects that would address such issues receive sufficient priority. Responding to our recommendation, GSA is giving more weight to health and safety issues as it prioritizes funding for repair and alteration projects.

*Improving Security for Top-Level Federal Officials:* GAO reviewed the security protection for executive branch officials—some of whom are in the line of presidential succession—at the request of the Subcommittee on Criminal Justice Oversight, Senate Committee on the Judiciary. GAO recommended that the Office of Management and Budget (OMB) designate an appropriate official or group to assess security protection issues for top-level officials, including, for example, how protective intelligence should be shared among agencies and what training should be provided to protective personnel. Subsequently, the Congress authorized the establishment of the National Threat Assessment Center to facilitate information sharing among federal, state, and local law enforcement agencies. The activities of this center may include training, threat assessment research, and other activities necessary to implement a comprehensive threat assessment capability.

## **Strategic Goal 2**

*Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence*

### **Responding to Diffuse Threats to National and Global Security**

#### *Creating a Focal Point for Combating Terrorism:*

GAO identified fragmentation among federal efforts to combat terrorism as several key interagency functions were spread across various agencies and sometimes overlapped. During summer 2001, GAO recommended that the president appoint a single focal point within the Executive Office of the President to oversee the collective efforts of the many agencies involved. Soon after the release of GAO's September 2001 report, the president announced the creation of the Office of Homeland Security within the Executive Office of the President. The Executive Order establishing the office provided it with many of the functions and responsibilities that GAO had advocated for improving interagency coordination.

#### *Contributing to the Preparedness of Federal, State, and Local Agencies to Respond to Terrorist Attacks:*

GAO had provided the Congress with a series of reports and testimonies to help it frame the debate on how federal programs to combat terrorism should assist state and local governments. After the terrorist attacks of September 11, GAO's work provided valuable reference material and guidance as the Congress sought to rapidly enhance programs to prepare the nation for terrorist attacks involving weapons of mass destruction.

#### *Improving Department of Defense Antiterrorism Efforts:*

At the request of the House Special Oversight Panel on Terrorism, GAO reviewed DOD's antiterrorism efforts at domestic installations. GAO identified shortcomings that needed to be addressed to provide installation commanders with the necessary information to effectively manage the risk of a terrorist attack and develop an effective antiterrorism program. DOD agreed with GAO's findings and has begun implementing all of the GAO-recommended corrective actions. GAO also worked with DOD to update and improve antiterrorism standards and the secure communication capabilities between some Navy facilities. This work provided a foundation for developing a risk management approach that can be

applied to other government operations. GAO presented information about this management approach to various congressional committees and other organizations.

#### *Strengthening Nuclear Nonproliferation and Safety Efforts:*

Preventing the spread of weapons of mass destruction and ensuring the safety of Soviet-designed reactors are important national security concerns. GAO's work in this area continues to have major impacts, including the implementation of GAO's recommendations designed to strengthen DOE's program to secure nuclear materials in Russia and sustain the improvements. In addition, DOE has implemented GAO's recommendations to fund only those safety projects that directly improve the operation of Soviet-designed reactors and to focus its Nuclear Cities Initiative funding on only those projects designed to employ Russian weapons scientists. These changes will result in better targeting of limited resources by eliminating projects that did not meet mission goals. Also, the Congress eliminated a \$100 million proposed nonproliferation program in the fiscal 2001 budget because GAO pointed out its duplication with existing programs and the lack of a cost-sharing commitment from the Russian Federation, among other things.

#### *Evaluating the Effect of Export Controls on National Security:*

GAO has made a number of contributions to the current congressional debate over the efficacy and relevance of the U.S. export control system by examining the rationale for export controls and their effect on national security. GAO's recent work and related testimony in March 2001 before the Senate Committee on Governmental Affairs on high-performance computers highlighted the growing ability of other countries to link together lower-performance computers, allowing these countries to circumvent current export controls over the use of computers for military application. GAO also concluded that the January 2001 changes in U.S. export controls related to the thresholds for high-performance computer exports were not adequately justified and merited further executive branch study.

#### *Protecting the Nation's Information Technology Infrastructure:*

GAO provided valuable information during fiscal 2001 to congressional and executive branch decision makers who were determining how best to refine and implement the government's

strategy to protect the federal informational technology infrastructure. GAO assessed government-wide the progress in implementing critical infrastructure protection efforts, including a detailed evaluation of the National Infrastructure Protection Center's performance. GAO's reports and testimonies detailed the growing array of threats, including cyber-terrorism, and related risks to our increasingly computer-dependent infrastructures, such as electric power, telecommunications, and key government services. In addition, GAO's products identified shortfalls and recommended solutions pertaining to the ability of our government to effectively analyze threats, respond to potentially damaging incidents, and work with the private sector to implement comprehensive risk-reduction measures.

*Strengthening Federal Information Security:*

Numerous federal agencies implemented improvements based on GAO recommendations to better protect the integrity, confidentiality, and availability of their critical computer-supported operations. Improvements stemming from prior years' and recent follow-up work included actions by DOD, the Treasury, VA, and EPA. Also, audits issued during fiscal 2001 prompted newly initiated actions at the Departments of Interior, Commerce, and Education. Improvements included strengthening access controls, developing and testing service continuity plans, and implementing management processes for ensuring that security controls appropriately address current threats and operate as intended. In addition, GAO reports and testimonies facilitated congressional oversight by highlighting significant vulnerabilities in critical federal systems and providing detailed information on new viruses and other cyber-related events.

*Informing the Debate Over Aviation Security:*

Improving the screening of airline passengers and their baggage moved to the top of the national agenda following the September 11 terrorist attacks. Building upon a considerable body of work on aviation security completed in recent years, GAO delivered four testimonies and two statements for the record during the 2 weeks following the attacks. These efforts, as well as discussions with the Congress since the hearings, helped bring into focus the root problems with our nation's aviation security system and, in particular, the screening process. Subsequently, the Congress passed legislation that addressed the screening concerns GAO identified.

In earlier work, GAO had recommended that FAA consider pursuing procedures common in other countries, such as limiting access to ticketed passengers, placing armed police at checkpoints, and placing armed militia throughout airports. FAA has begun adopting some of these security screening strategies and procedures.

**Ensuring Military Capabilities and Readiness**

*Reducing the Department of Defense's Funding:*

GAO reviewed the reasonableness of DOD's budget requests for fiscal 2001 to assist subcommittees in their appropriation and authorization deliberations. On the basis of GAO's findings, the Congress reduced DOD's budget by about \$1.45 billion—specifically (1) the military personnel request by \$651.2 million; (2) the operation and maintenance request by \$565.7 million; and (3) the procurement and research, development, test, and evaluation request by \$233.2 million. The reductions did not affect readiness because (1) DOD did not have as many personnel on board as expected, (2) the foreign currency exchange rate programs outside the United States (most of the operations and maintenance funds) were more favorable than expected, and (3) procurement funds were available because of schedule slippages or performance problems.

*Enhancing Military Chemical and Biological*

*Defense Program:* Since the Gulf War, DOD has emphasized the increasing threat from the proliferation of chemical and biological weapons. GAO reviews of DOD's Chemical and Biological Defense Program have recommended a number of actions which have contributed to doctrinal and policy changes and enhanced procedures to address the defense of critical overseas facilities, such as ports and airfields. Subsequent to other GAO recommendations, DOD has implemented operational improvements for protecting its dependents and contractors and issued new equipment to address medical unit ability to treat casualties in a contaminated environment.

*Highlighting the Problem of Aircraft Cannibalization:*

In May 2001 testimony before the House Government Reform Committee, GAO showed how the military services were too frequently taking spare parts from one aircraft to fix another one. This practice, called cannibalization, was very inefficient, costing an estimated 5 million extra hours of maintenance time over the 5-year period we examined.

This led to lower morale among maintenance workers and may have contributed to recruiting and retention problems in the services. The services are instituting new data systems to capture and analyze the full extent of the problem and have undertaken several initiatives to address this issue. In addition, DOD has begun an in-depth assessment of the operational impact of cannibalization throughout DOD.

*Shedding Light on the Lessons Learned From the Kosovo Operation:* In Operation Allied Force, the United States and our North Atlantic Treaty Organization (NATO) allies conducted air operations against the Federal Republic of Yugoslavia during 1999. In a series of reports for several congressional requesters, GAO provided insight into the key lessons that the United States learned from those operations and offered a number of observations and recommendations that should be useful to decision makers in future similar conflicts. For example, GAO pointed out that in an effort to maintain the cohesion of the NATO alliance, several key areas of U.S. military doctrine were not followed and some of the same constraints are likely to apply to future conflicts. In addition, the lack of agreements with neighboring countries for basing military aircraft needed for the operation often led to uncoordinated and ad-hoc arrangements. DOD agreed that it needs to better anticipate basing needs in the future and negotiate advance arrangements with allied nations.

*Improving the Department of Defense's Personnel Security Investigation Program:* In response to congressional requests, GAO reported major deficiencies in how DOD decided whether to grant security clearances to its civilian, military, and contractor personnel. As a result of our recommendations, DOD's Security Service developed a strategic plan that outlined how it would improve its investigator training and quality control program and better assess its investigator requirements. In addition, DOD bolstered its oversight of this key personnel security program, brought its investigation standards in line with federal standards, and developed a strategy and plan for addressing the large backlog of overdue investigations. DOD also initiated a series of actions to correct problems with its automated case management system.

*Better Targeting of Military Family Support:* In response to a congressional request, GAO reported in March 2001 that the Air Force did not use needs

assessment data to budget for family programs. Furthermore, it did not include criteria generally recognized as important for needs assessments, such as the use of benchmarks to determine whether needs have changed, a strategy to determine which needs will receive priority funding, and information on the type and capacity of off-base community and family support services. Neither DOD nor Air Force family needs assessment regulations include these criteria. To ensure the value and accuracy of assessing the needs of military families, we recommended requiring such criteria. Consequently, the Office of the Secretary of Defense is revising its instructions to require the use of benchmarks in programs funded through the family centers to define when needs have changed and to require, as appropriate, the services to use needs assessments in supporting budget allocations.

*Improving Military Absentee Voting:* At the request of congressional committees and several members of the Congress, GAO examined the challenges faced by military and overseas citizens who vote absentee. Among other findings, GAO found that 8.1 percent (plus or minus 3.2 percent) of the ballots cast by military and overseas voters in small counties were disqualified, compared to a disqualification rate of 1.8 percent for civilians not living overseas. On the basis of its findings, GAO recommended in September 2001 that the two pertinent agencies—the Departments of Defense and State—improve (1) the clarity and completeness of guidance, (2) voter education and outreach programs, (3) oversight and evaluation of voting assistance efforts, and (4) sharing of best practices. Both DOD and the State Department agreed with the findings and have pledged action to improve their voting assistance programs based on GAO's recommendations. Furthermore, the House and Senate Armed Services Committees have incorporated provisions in the fiscal 2002 DOD authorization bills to address weaknesses identified in the GAO report.

*Assessing Attitudes of Critical Enlisted Military Personnel:* At the request of the House Armed Services Committee, GAO reported in June 2001 on why highly trained individuals were leaving the military. In recent years, DOD has become increasingly concerned about its ability to retain enough personnel who possess specialized skills. To gain insights into the attitudes of these "retention-critical" personnel, GAO used DOD's 1999 survey of active duty military

personnel to help compare the attitudes and perceptions of critical enlisted personnel against those of other enlisted personnel. GAO concluded that personnel in retention-critical occupations are not being “pushed out” of the military at a rate greater than their peers because of their dissatisfaction with their experiences. Rather, to the extent they possess marketable skills, they are more likely being “pulled out” of the military by more attractive civilian opportunities.

*Evaluating Military Housing Privatization Initiative:* DOD’s Military Housing Privatization Initiative offered significant potential for replacing \$40 billion in substandard housing more quickly than could be expected under traditional military construction programs. Yet, after 5 years, progress in finalizing new projects was slow and many questions had arisen over aspects of the program. In response to a congressional request, GAO reviewed the initiative and recommended an evaluation plan to better direct the program and to help DOD track progress and identify and address problems. DOD has now developed an evaluation plan that has become a key tool in evaluating the benefits of the program, identifying best practices, and implementing program improvements.

*Rescinding V22 Osprey Aircraft Procurement Funds:* In a series of congressional, Navy, and DOD briefings during fiscal 2001, GAO questioned the technological maturity of the V-22 Osprey aircraft and expressed concerns with the Navy’s pending full-rate production decision on the aircraft. The Navy delayed that decision and, during that delay, a Marine Corps V-22 crashed, killing all four Marines on board. An independent panel appointed by the secretary of defense subsequently concluded that the aircraft lacked the maturity needed for full-rate production and recommended that production be reduced to a minimum sustaining level until problems with the aircraft are resolved. DOD implemented that recommendation, which resulted in a rescission of \$446.5 million in procurement funds.

*Reducing the Navy Satellite Communications Budget:* GAO reported to the defense committees in May 2000 that the Navy planned to purchase the launch service for the Ultra-High-Frequency Satellite 11 earlier than needed and recommended that the Navy weapons procurement budget request for the service be reduced by \$75 million. As a result, the

Congress appropriated \$75 million less than the amount requested. GAO also reported that the Navy planned to purchase 50 extremely high-frequency follow-on terminals before completing developmental and operational testing and recommended that the Navy 2001 budget request be reduced by \$46.1 million. Citing our recommendations, the Congress appropriated \$25 million less than the amount requested.

*Cutting Costs in Army Acquisition:* GAO reviewed the fiscal 2001 budget for the Army’s Warfighting Rapid Acquisition Program—a tool to accelerate the fielding of technologies nearing the production phase by making funds available more quickly than is normally required in the budget process for new programs. Within this program, GAO identified \$10 million in excess research, development, test, and evaluation funds for fiscal 2000 and an additional \$6 million in excess in the fiscal 2001 budget request. GAO’s recommendations helped the Congress to rescind \$10 million of the fiscal 2000 excess and eliminate the need for an additional \$6 million in fiscal 2001.

*Reducing Army Costs for Its First Digitized Corps:* GAO reviewed the Army’s priority 2 systems for the First Digitized Corps, which applies information technologies to acquire and employ timely information about the battlefield. As part of that review, GAO identified a potential budget rescission of \$19.1 million in the Army’s fiscal 2000 budget appropriation for the Grizzly Engineering Vehicle and \$45.4 million for a Command and Control Vehicle. GAO reported that these funds were excess to the fiscal 2000 appropriation and not needed. Subsequently, the Senate and House Appropriations Committees, in conference, sustained the reduction of \$19 million on the Grizzly Vehicle and rescinded \$4 million on the Command and Control Vehicle.

*Considering Alternatives to the Crusader Artillery System:* GAO reported in 1997 that the U.S. Army’s development of the Crusader artillery system was a high technical risk and recommended that the Army determine if alternative artillery systems, such as the Paladin howitzer, might be better suited to improve the Army’s artillery systems if the Crusader could not meet its requirements. Subsequently, the Crusader system was unable to meet its weight requirement. In its appropriations report, the Congress limited to 50 percent the expenditure of fiscal 2001 Crusader

funds until the secretary of defense submits a comprehensive analysis of alternatives for the Crusader system. The Army is performing that analysis.

***Cutting the Cost of Defense's Acquisition Infrastructure:*** In a series of reports and comments on legislation for the House National Security Committee beginning in the mid-1990s, GAO examined numerous facets of DOD's acquisition infrastructure, of which its acquisition workforce is a major component. GAO's primary messages were that acquisition infrastructure reductions had not kept pace with reductions in other areas of DOD's operations and that the acquisition workforce needed to be consistently defined to effect appropriate reductions. Consequently, DOD redefined the workforce and the Congress directed DOD to develop specific plans for reducing its acquisition workforce. These workforce reductions totaled \$3.32 billion and freed the funds for other high-priority items.

***Improving Accountability Over Defense Inventory:*** In response to various congressional requests, GAO issued several reports on DOD's inventory management practices that resulted in significant management improvements, financial savings, and enhanced congressional oversight. GAO identified key factors causing parts shortages for military weapon systems and the adverse impact these shortages were having on mission performance, morale of military personnel, and actions DOD is taking to address these problems. The work also resulted in recommendations to improve quality deficiency reporting for parts purchased or repaired. Related work further showed that DOD was not effectively tracking the use of funds earmarked for reducing spare part shortages and recommended actions for improving oversight of such funds. GAO also recommended actions to improve the accountability over DOD inventory that was being shipped from contractor or DOD facilities. GAO's work showed that these items, which were cumulatively valued at billions of dollars, were often vulnerable to theft and undetected loss. This work resulted in savings of about \$1.8 billion. Further recommendations were made to improve the accountability over items containing sensitive military technology that were being disposed. Lastly, GAO made recommendations to improve the practices for determining when to retain or dispose of DOD's multibillion-dollar inventory of spare parts.

***Ensuring Accountability of Excess Defense Property:*** GAO reported that the comprehensive procedures that DOD developed to track excess property did not work effectively, leaving the property vulnerable to loss or theft. For example, internal control procedures designed to protect firearms and other sensitive items were not always followed. Mistakes and unsupported inventory adjustments occurred because of inadequate management oversight, inadequate training, and computer system programming errors. While the number of these items potentially lost or stolen was small relative to total DOD inventory, the concern lies in the potential danger should these items get into the hands of terrorists or foreign countries. In response, DOD increased its emphasis on training by developing a training package on the visibility of and accountability for excess property (including ownership responsibilities and risks) and by providing training for its field personnel. In addition, DOD made improvements to the programming logic of its computer systems that will eliminate erroneous transactions that were previously passed through the systems.

***Improving Equipment Maintenance Practices:*** In response to a congressional mandate, GAO reviewed various aspects of DOD's planning for major maintenance actions at its depot facilities. The work identified several issues that are critical to having future maintenance capabilities that will meet DOD's needs. For example, DOD has not conducted the needed analysis to determine if its policy of preferring contractors for performing maintenance and related logistics activities is the most cost-effective. In addition, DOD continues to lack timely and accurate financial management information that is essential for supporting effective decision making for its maintenance and other logistics activities. Meanwhile, the services have not structured their downsizing in such a way as to ensure continued revitalization of the military depots with respect to workloads, depot plant and equipment, and trained personnel. They also continue to struggle to improve depot programs, processes, and operations and make maintenance services, whether acquired from the public or private sector, more efficient while meeting operational requirements. GAO's work supported congressional oversight of these issues; and as a result, the Congress is requiring DOD to develop a depot support plan early in 2002.

**Improving Ammunition Management:** At the request of the Congress, GAO has done a body of work analyzing DOD's management of conventional ammunition. GAO found that contracting practices for the disposal of conventional ammunition raised the question about whether the Army is sponsoring too much disposal capacity. In response, the Army is assessing the appropriate mix of government-owned and private sector capacity needed to dispose of excess ammunition. GAO also found that the reliability of the process that determines both the size and capabilities of the ammunition production base was questionable due to a number of issues that DOD had not addressed. These weaknesses could result in under- or overstated requirements or in an incorrect mix of ammunition, which could adversely affect ammunition planning, programming, budgeting, and industrial production base decisions. In response to GAO's findings, DOD developed an action plan to provide a more accurate picture of the services' ammunition requirements, allow DOD to determine which production facilities are no longer needed to meet future military requirements, and improve the accuracy of the budgeting process.

**Contributing to the Military Base Closure and Realignment Process:** GAO has issued a number of reports since 1979 documenting excess infrastructure within DOD and supporting the need for a base closure and realignment process. After the Congress's authorization of such a process, GAO was legislatively required to provide the Congress with a series of reports and testimonies validating DOD's implementation. GAO monitored and assessed all phases of the decision-making process, including executive-level sessions, for compliance with congressional requirements. In addition, GAO provided staff to each commission established to recommend base closures and realignments for rounds held in 1991, 1993, and 1995. The staff helped shape the commissions' decisions through analysis of issues associated with closing or realigning specific installations. GAO estimated \$6 billion in net savings in fiscal 1999 and 2000 for the three base closure rounds.

**Managing Nuclear Weapons Facilities:** DOE maintains sophisticated science and engineering facilities to design and test—in a laboratory setting—nuclear weapons and to ensure that they will work as intended. GAO reported that DOE's newest facility under construction—a laser machine the size of a

football stadium and being built by a California defense laboratory—is \$1.4 billion over budget and 6 years behind schedule. Poor laboratory management and weak departmental oversight were major problems. GAO also reported that the giant laser, called the National Ignition Facility, may not work as intended and could give less useful information than originally believed. GAO recommended several management improvements, including the need for an independent scientific and technical review. So concerned that this crucial facility is being mismanaged, two different committees asked GAO to examine its progress, and the Congress passed a mandate to have GAO follow up on its previous findings. Moreover, both the House and Senate directed DOE to address GAO's findings and recommendations.

**Maintaining a Safe and Reliable Nuclear Weapons Stockpile:** Frustrated by long-standing and widely recognized management problems at DOE, which were underscored by significant cost overruns on major projects and security problems at the national laboratories, the Congress in October 1999 created the National Nuclear Security Administration. A semiautonomous agency within DOE, it is responsible for the nation's nuclear weapons, nonproliferation, and naval reactors programs. To oversee the agency's implementation, the House Armed Services Committee created the Special Oversight Panel on the Department of Energy's Reorganization. GAO has been a vital player in the Panel's oversight. In particular, GAO issued a comprehensive report on the management effectiveness of the agency's nuclear weapons production program; testified before the Panel in April 2001; analyzed proposed changes to the legislation that created the agency; and provided regular briefings to Panel and Committee staff.

**Enhancing Analysis of Defense Spectrum Management Requirements:** GAO reported to the Senate Armed Services Committee in August 2001 on the sale of DOD's radio frequency spectrum in the 1755 to 1850 megahertz band for commercial wireless communication purposes. GAO concluded that available information did not support reaching near-term decisions about selling licenses or reallocating DOD's spectrum. GAO found that DOD faced unknown risks, including potential loss of significant satellites. GAO documented that DOD, industry, and Air Force models used to justify their positions on



this issue were based on different assumptions because no single agreed-upon methodology exists to estimate potential spectrum interference to satellites from new commercial technologies. GAO recommended that DOD provide more in-depth technical, operational, and cost assessments of satellite systems in this band. On the basis of GAO's recommendations, the National Security Council is working to develop and implement a common methodology. The Department of Commerce is also incorporating our findings in a new spectrum planning study and has requested an extension of time to complete needed analyses. The Congress is debating the issues GAO covered in its report to determine an appropriate course of action.

### **Advancing and Protecting U.S. International Interests**

*Addressing Global Health Challenges:* In response to congressional concern about infectious disease, GAO examined global disease surveillance and efforts by the U.S. Agency for International Development (USAID) and the United Nations to fight the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS). GAO's work showed that networks created to support international efforts against certain diseases, such as polio, dominate the global infectious disease surveillance framework, while surveillance for other diseases is comparatively weak, particularly in developing countries. GAO reported that the international community has launched a number of new disease-specific initiatives that may facilitate broad improvements in surveillance capacity. Also, U.S. programs in Africa and worldwide efforts by United Nations' agencies have improved the global response to HIV/AIDS. However, GAO found that monitoring and reporting on the results of these HIV/AIDS programs could be improved. In response to GAO's recommendation, the State Department is working to improve monitoring and reporting of United Nations' sponsored activities against HIV/AIDS, including those at the country level. USAID is supporting activities aimed at improving surveillance in developing countries.

*Evaluating Disaster Recovery Assistance for Latin America:* GAO has evaluated \$621 million in emergency supplemental funding appropriated in May 1999 for countries affected by Hurricanes Mitch and Georges. While monitoring the assistance provided, GAO has raised concerns on the quality of several

construction projects, the lack of services in certain resettlement communities, and the lack of support by host governments for some projects. GAO's observations and focus on key issues identified during this oversight often resulted in USAID giving top priority to resolving concerns as they arose and improving projects during implementation. At a March 2001 hearing, the committee responsible for approving disaster recovery assistance complimented GAO on its oversight efforts and its analysis of the challenges faced by the agency in delivering a large amount of assistance within a relatively short time.

*Promoting Democratic Principles in U.S. Assistance to the Former Soviet Union:* Under a congressional mandate, GAO assessed U.S. efforts to implement rule-of-law activities in the former Soviet Union. The rule of law embodies the basic principles of equal treatment of all people before the law and is founded on a transparent legal system that protects citizens against the arbitrary use of state authority. GAO's review of programs in 12 independent states of the former Soviet Union showed that limited political support for genuine reforms constrained the impact and sustainability of these efforts. Our analysis resulted in a comprehensive restructuring of U.S. programs in the region, including a reassessment of more than \$30 million in rule-of-law funding.

*Assessing U.S. Foreign Assistance for Fair Elections in Peru:* In a March 2001 testimony, GAO provided the Congress with its evaluation of U.S. assistance to help Peru prepare for free and fair presidential elections. GAO found that U.S. aid was (1) provided on a timely basis, (2) responsive to Peru's particular needs, and (3) coordinated with other donors. At the request of the chairman of the Subcommittee on the Western Hemisphere of the House International Relations Committee, GAO also observed the implementation of U.S. assistance during Peru's April 2001 election day and assessed plans for further U.S. democracy-related assistance to Peru.

*Saving Cost of Upgrades in Okinawa Facilities:* DOD plans to close Marine Corps Air Station and certain other facilities on Okinawa as part of a larger plan to reduce the impact of the U.S. presence. For a congressional requester, GAO reviewed DOD's plans. Under existing arrangements, Japan renovates certain facilities on U.S. bases but cancelled renovation plans at Futenma because of the closure plan.

Nonetheless, certain renovations at Futenma were urgently needed, so the Marine Corps decided to fund the renovations themselves. Because construction of a replacement for Futenma has been delayed indefinitely, GAO recommended that DOD work with Japan to have the Japanese reinstate the funding for the projects, permitting the Marine Corps to avoid these costs. Japan subsequently restored nearly \$30 million to renovate facilities at Futenma.

***Improving Consultation with the Congress on United Nations' Peacekeeping:*** The Congress appropriates more than \$800 million annually to fund United Nations' peacekeeping—a controversial issue here and abroad. In response to congressional interest, GAO found that the executive branch voted for proposed missions in 1999 and 2000 that had significant shortfalls—such as inadequate troops and no realistic exit strategy—but did not inform the Congress about the shortfalls. These findings have helped spur executive branch officials to be more forthcoming by committing to written notification to the Congress about shortfalls so that it can be better informed before committing hundreds of millions of dollars for peacekeeping missions.

***Bringing Budgetary Reform to the United Nations:*** Over the past few years, U.S. arrears to the United Nations mounted to about \$1 billion because the Congress was dissatisfied with United Nations' reforms. GAO's body of work during this period determined that the United Nations had not yet adopted results-based budgeting and evaluation systems, which are essential to reform. GAO concluded, however, that the United Nations had made good progress in streamlining the organization to more effectively respond to crises and member state demands. In response to GAO's recommendations, the United Nations pledged to work toward adopting results-based budgeting and to improve its evaluation system. In 2001, the United Nations adopted its first results-based budget for 2002. Recognizing this progress, the Congress passed legislation in 2001 that broke the deadlock with the United Nations and paid the arrears.

***Improving U.S. Employment in United Nations Organizations:*** Over the last decade, the number of Americans that United Nations organizations employed has been below the established targets of the United Nations. For this reason, the Congress

asked GAO to review the efforts employed by United Nations organizations and the State Department to increase the overall number of Americans employed, especially in senior and policy-making positions. GAO made several recommendations to improve U.S. representation and to encourage the State Department to take appropriate action to increase the number of Americans in United Nations organizations. Legislation, based on the report's findings, was included in the fiscal 2002 and 2003 Foreign Relations Authorization bill.

***Improving Security and Planning in U.S. Embassy Construction:*** According to the State Department, about 180 of its overseas U.S. diplomatic facilities lack adequate security and may be vulnerable to terrorist attack. Although State envisions a long-term, multibillion-dollar program to replace these facilities, GAO found that the State Department had not prepared a long-term capital construction plan that identifies (1) proposed construction projects' cost estimates and schedules and (2) estimated annual funding requirements for the overall program. On the basis of GAO's findings and recommendation reported to the Senate Foreign Relations Committee in January 2001, the State Department has prepared a multiyear overseas building plan that identifies \$6.2 billion in initial requirements. This plan, as well as several new management initiatives at State, should help pave the way for more cost-effective implementation of this multiyear effort and provide better protection for Americans working overseas.

### **Responding to the Impact of Global Market Forces on U.S. Economic and Security Interests**

***Negotiating a Free Trade Area of the Americas Agreement:*** GAO issued two reports and a testimony in 2001 highlighting the challenges faced by negotiators from the 34 countries participating in the Free Trade Area of the Americas agreement, the status of technical negotiations in 12 key areas, and the potential economic effect of a completed agreement on the United States. In particular, GAO showed that (1) it is essential for the negotiating countries to demonstrate their political will to conclude the negotiations, (2) to date wide differences exist in the technical negotiations, and (3) a completed agreement will likely have both benefits and costs to the United States, depending on the sector affected.

GAO's work was the first comprehensive analysis of the agreement negotiations to be made public and has been disseminated throughout the hemisphere.

*Comparing U.S. and European Union Trade Preference Programs:* In response to a request from the Subcommittee on Trade, House Committee on Ways and Means, GAO reported in June 2001 that the United States and European Union had similar programs to increase trade with developing countries, offering them fairly comparable tariff preferences. However, GAO also identified several factors that limited developing countries from taking full advantage of the lower tariff rates offered, including complex rules-of-origin requirements established to ensure that tariff advantages apply only to products actually produced in the developing country. In addition, GAO noted that the programs excluded several products in which developing countries are most competitive, particularly textiles and apparel goods. In November 2001, the House of Representatives approved legislation that expanded benefits in one of the programs GAO reviewed, including extending duty-free treatment for apparel from Andean countries for the first time. The House also clarified complex rules-of-origin requirements for two other programs GAO reviewed. The legislation was pending in the Senate as of early 2002.

*Enhancing the Control of Missile and Related Technology Exports:* Responding to a Senate Armed Services Subcommittee request, GAO reviewed in 2001 various aspects of the U.S. government's commitments to the Missile Technology Control Regime—an international agreement to control the proliferation of missiles and related technology. A U.S. inter-agency working group is charged with reviewing proposed U.S. missile technology exports processed through the Departments of State and Commerce and evaluating these exports in terms of U.S. commitments to the Regime. In recent years, the inter-agency group reviewed the State Department's missile technology exports for all countries but only reviewed the Commerce Department's missile technology exports destined for certain countries. As a result of GAO's work, the interagency group instituted a new policy to review all State and Commerce missile technology exports regardless of the country of destination. This new policy will better ensure that the U.S. government is fulfilling its commitments to the Regime.

*Improving Data on U.S. Arms Exports:* In response to a request from the House International Relations Committee, GAO reported in 1999 that the United States lacks reliable data on commercial arms exports. Accurate data are needed to support arms export policy decisions. As a result of GAO's work, the Congress passed legislation to require companies exporting defense items to submit a detailed report about the exports to the State Department, which oversees arms exports. In addition, the legislation required the president to report information about arms exports to the Congress on a quarterly basis.

*Maximizing the Financial Benefits of Defense's Export Sales of Weapon Systems:* GAO reported to the Senate Subcommittee on Readiness and Management Support that DOD was not considering export sales of weapon systems when developing contract strategies and establishing contract prices for DOD systems. Through case studies, GAO pointed out that while export sales reduced the cost of U.S. military weapon systems, DOD was not maximizing those savings and had not developed guidance that would assist the acquisition community in doing so. GAO reported that savings could be increased if acquisition executives combined purchases for foreign governments with purchases for the U.S. military, spread production costs evenly over units produced for the U.S. military and foreign buyers, prohibited contractors from paying higher material costs to satisfy an offset, and were careful not to give up price reductions for DOD systems. DOD subsequently issued guidance to enhance the financial benefits derived from export sales.

*Prohibiting Incentive Payments for Commercial Foreign Purchases to Fulfill Offset Agreement:* In an August 1997 report, GAO pointed out weaknesses in the 1994 Feingold Amendment to the Arms Export Control Act. That amendment prohibited U.S. contractors from making incentive payments to induce U.S. individuals or companies to buy goods or services from a foreign country to fulfill an offset agreement. However, because of the wording of the amendment, the prohibition only applied to foreign military sales, not commercial sales. To correct the problem, GAO provided legislative language to extend the prohibition to commercial sales. That language was included in the Defense Offsets Disclosure Act of 1999 (P.L. 106-113).

*Settling a 20-Year Dispute on Stock Trading:* GAO's work influenced the Congress to push the securities and futures regulators to collaborate so that the nearly 20-year ban on trading single stock futures and certain stock indexes, called the Shad-Johnson Jurisdictional Accord, could be repealed. As part of their collaboration, these regulators implemented GAO's recommendations to (1) develop and implement an appropriate legal framework to allow for the trading of futures on single stocks and all stock indexes and (2) submit to the Congress legislative proposals to repeal the Accord trading prohibitions. Subsequently, the Commodity Futures Modernization Act of 2000 repealed the Accord's trading prohibitions.

*Helping to Reform Lending Programs to Poor Countries:* GAO's analysis showed that, even after receiving debt relief and more low-interest loans, many low-income countries face significant challenges. They have difficulty in (1) overcoming their debt problems and graduating from their need for concessional (below-market terms) loans and (2) preparing strategies for reducing their high levels of poverty. GAO found that countries are likely to continue to have difficulty repaying their debt under the Heavily Indebted Poor Countries Initiative unless they achieve economic growth rates far greater than what they managed in the past. Similarly, responding to concerns that too many low-income countries continue to receive assistance from the International Monetary Fund, GAO demonstrated in its analysis that these countries would remain eligible for such assistance for an average of 59 more years. GAO also reported that preparing country-owned poverty reduction strategies, as required by the World Bank and the Monetary Fund, is complicated and resource intensive, and success depends on countries reaching widespread agreement on very sensitive and complex issues. GAO's findings have been highly influential, with various organizations using these findings to help promote reform of the debt relief initiative.

*Enhancing the World Bank's Anticorruption Efforts:* The World Bank lends countries billions of dollars each year and, thus, must ensure that corruption—which flourishes in some countries—is minimized in the projects it finances. To combat corruption, the World Bank had undertaken an ambitious and systematic effort to identify and correct key weaknesses in its management controls. However, significant

challenges remained and the Bank could not provide reasonable assurances that project money was being spent according to its guidelines. Accordingly, in a report to House and Senate requesters, GAO recommended that the United States work with other members to encourage the Bank to monitor and report on progress in strengthening management controls and correcting past project management control weaknesses. In response to this recommendation, the Bank has taken steps to (1) better publicize information on its anticorruption and governance initiatives, (2) provide guidance to staff on preventing fraud and corruption in World Bank projects, (3) refocus the work of the Internal Audit Department, (4) strengthen project auditing and supervision, and (5) strengthen the risk assessment process for World Bank-financed projects.

*Improving Oversight of Government-Sponsored Home Loan Enterprises:* GAO's work on government-sponsored enterprises has contributed to legislative initiatives and improved federal oversight of the Federal Home Loan Bank System, Fannie Mae, and Freddie Mac. For example, a GAO congressionally requested report in 1999 on the System's capital structure led to resolution of discrepancies between House and Senate bills and implementation of an improved capital structure. In addition, GAO's work on the System's regulator has led to improvements in safety and soundness oversight. Finally, as a result of GAO's 1998 recommendations on HUD's oversight of Fannie Mae and Freddie Mac, HUD has improved its capacity to evaluate the effects of requirements it establishes for these government-sponsored enterprises.

*Fostering Transparency in Regulatory Banking Decisions:* In response to a congressional request, GAO examined the process the Office of the Comptroller of the Currency used in deciding to allow national banks to acquire equities to hedge certain risks. The office was criticized for using a process that avoided public scrutiny in interpreting a federal banking law that affected other banking regulators and was controversial. Responding to a recommendation in GAO's August 2001 report, the office almost immediately issued new internal guidance. This guidance establishes new requirements for public disclosure of the office's interpretive decisions, thus increasing the transparency of its decisions to the Congress and the financial community.

**Improving the Safety and Capacity of Security Markets:** GAO found that weaknesses identified in SEC inspection reports had gone unattended in the securities market. For example, SEC identified a lack of backup trading facilities, which was exposed during the recent terrorist attack in New York. GAO encouraged the markets to take actions to address the deficiencies that SEC identifies during inspections of market systems.

**Establishing an Overseer of Small Business Lenders:** GAO examined the Small Business Administration's (SBA) oversight of commercial lenders of federally guaranteed 7(a) loans to small businesses. GAO's work led to the creation of SBA's Office of Lender Oversight and the establishment of clear organizational responsibilities necessary for lender reviews. Also based on GAO's recommendations, the Office of Lender Oversight has been assigned responsibility for conducting safety and soundness examinations of small business lending companies, which are financial institutions chartered by SBA.

**Clarifying the Role of the Securities Investor Protection Corporation:** GAO's review of the Securities Investor Protection Corporation revealed widespread investor confusion about how the Protection Corporation operates. Although created in 1970 to protect securities investors against losses from the failure of a broker-dealer, GAO found that the Protection Corporation had not taken adequate steps to disclose its policies to the public. For example, some investors seemed unaware of the need to provide written evidence of complaints to their brokers about an unauthorized trade, and the Protection Corporation's informational brochure did not disclose this policy. Subsequent to GAO's report in May 2001 and consistent with the recommendations, the Protection Corporation improved its informational brochure and Web site disclosure to better explain its policies and the importance of the investors' role in safeguarding their investments.

### **Strategic Goal 3**

*Support the Transition to a More Results-Oriented and Accountable Federal Government*

#### **Analyze the Federal Government's Long-Term and Near-Term Fiscal Position, Outlook, and Options**

**Addressing Long-Range Fiscal Challenges:** GAO's long-term fiscal simulations continued to focus attention on the long-term budget outlook for the nation. This work showed that as the population ages, spending on the elderly would reduce our flexibility to respond to other national needs and ultimately become unsustainable over the long run. By illustrating the magnitude of the fiscal challenges associated with our aging society, these simulations played a key role in broadening the focus of the Social Security and Medicare reform debates beyond the trust fund solvency to the larger issue of sustainability. GAO's work helped inform deliberations about how to use the budget surplus and focused attention on the importance of saving and investment to promote long-term economic growth.

**Improving Capital Planning and Budgeting:** GAO's work this year resulted in several improvements in capital planning and budgeting. A body of work done for the Senate Budget Committee on incremental funding of capital assets resulted in the denial of such funding for Navy shipbuilding and in the revision of Office of Management and Budget requirements for budget justifications for capital projects. GAO's work showed that if the Navy shipbuilding account were to be moved from full to incremental funding for a given period of time, this would not allow the Navy to procure more ships for a given amount of funding. In addition to eroding future fiscal flexibility, incremental funding has been shown to have negative consequences, such as project cost overruns and schedule delays. In response to our work, OMB also directed agencies to provide better budget information to the Congress, including information to assess current and proposed capital projects and how they would be funded.

**Improving Budgeting Practices:** By developing a framework to capture the oversight and budgetary implications of GAO's work, GAO helped the Congress identify new, performance-oriented approaches to improve the allocation of resources to existing claims and programs in the budget. GAO's

continuing work on agency efforts to align performance plans, budget, and financial reports provided a framework that prompted and supported efforts by OMB to clarify and strengthen its guidance to agencies. Improved linkage between agencies' performance plans and budget requests is a critical step in defining the performance consequences of budgetary decisions. Also, clearer linkage between the resources consumed and the results achieved is a key feature of sound management that reinforces the transition to a more results-oriented and accountable government. To provide a context for reviewing the use of performance information in agencies' budget decision making, GAO developed a framework of results-oriented budget practices. This framework describes the activities, processes, and capacities that can help an agency to incorporate performance information into its internal budget deliberations and to identify opportunities to make better use of available resources to accomplish its goals.

***Building GAO-Wide Budget Review Capacity and Knowledge Sharing:*** GAO's reviews of the president's budget request for selected programs, activities, and line items serve as an important source of information to the Congress during budget deliberations. These reviews help identify existing resources that are available to offset a budget request or the potential to shift funds from a lower to a higher congressional priority. To broaden GAO's institutional knowledge, GAO's budget justification review working group developed a standard approach and methodology for these reviews, trained staff, and created a Web page to serve as a single source for key documents.

***Improving Debt Collection:*** In a review of DOD's debt collection, GAO recommended procedural improvements based on debt validation, new timeframes for issuing demand letters, and more stringent oversight of debts transferred to centralized debt collection programs. These actions should promote more effective collection and reduce outstanding debt.

***Assessing the Challenges in Maintaining the Federal-State Fiscal Balance Under Welfare Reform:*** GAO assessed changes to the way states finance their programs supporting low-income families in the advent of welfare reforms. GAO's innovative research methodology sought to capture how the design of the new welfare block grant influences

states' decisions on how to finance existing programs, whether to dedicate resources to new programs, and whether to reserve some federal or state funds for various contingencies. The methodology focuses on the grant as a tool to influence state financing decisions. GAO found that most states maintained their investments in welfare-related social services and that many design features of the block grant, such as the maintenance-of-effort provision, restricted the extent to which states could use federal funds to replace state funds. GAO identified ways the Congress could change the grant design to strengthen states' incentives to "save for a rainy day."

### **Strengthen Approaches for Financing the Government and Determining Accountability for the Use of Taxpayer Dollars**

***Reducing Taxpayers' Compliance Burden:*** In response to recommendations GAO made in 1999 and 2000, the Internal Revenue Service (IRS) took actions in 2000 and 2001 intended to simplify some taxpayers' burden of complying with the tax laws. IRS used feedback that taxpayers were providing during their phone calls to help them write clearer taxpayer notices; and, in an effort to improve the response rate for some notices, it surveyed taxpayers about why they did not respond. IRS also began using its data and SSA's data to lessen the number of erroneous tax assessments that were higher than what taxpayers owed, thereby reducing the burden and costs for taxpayers and the agency to correct these problems. For business taxpayers that establish transfer prices for their intercompany transactions, the agency expedited the processing of related agreements with them and the review of their subsequent annual reports. These agreements are designed to reduce complex, lengthy, and costly transfer pricing disputes between IRS and businesses that ultimately affect the taxable income of the businesses.

***Improving Compliance With Tax Laws:*** In a 1999 congressionally requested report, GAO documented weaknesses in selecting and conducting audits that are done by correspondence between IRS and taxpayers. In response, IRS agreed to take a series of steps intended to improve the quality of the audits. The steps included ensuring that (1) knowledgeable staff select the returns to be audited because others might not identify all tax issues worth auditing, (2) the audit file documents the support for audit findings, (3) managerial reviews are documented, and

(4) quality reviews of closed audits are based on a representative sample. These steps should help ensure that taxpayers pay their fair share of taxes and, at the same time, are treated fairly by IRS.

*Supporting Congressional Oversight of the Internal Revenue Service's Modernization:* The 1998

Internal Revenue Service Restructuring and Reform Act signaled intense congressional interest in how the agency administers the tax code. During the 2001 joint oversight hearing of seven committees of jurisdiction, GAO testified on the mixed progress the agency is making in modernizing its managerial processes and its information technology. Among other things, GAO pointed out that (1) IRS's goal to achieve an electronic filing rate of 80 percent by 2007 is at risk, given the slowing growth in electronic filing; (2) IRS's capacity to manage information technology projects was lagging behind the projects' implementation, raising the risk of costly failures; and (3) security for electronically filed returns was seriously flawed, although the agency said it had corrected the critical deficiencies GAO found. In addition, GAO continued to emphasize that an effective performance management system—one that establishes results-oriented goals, objectives, and measures—is essential to meeting congressional expectations for an IRS that better serves the American taxpayer.

*Simplifying the Tax Code:* In support of the Congress's efforts to simplify the tax code, in 2001 GAO provided voluminous data to the Joint Committee on Taxation regarding the scope and complexity of the code. The joint committee used the GAO data to support a long list of recommendations intended to reduce the code's complexity. In addition, as the Congress discussed possible changes to the complicated alternative minimum tax, GAO testified on the increased use of the alternative minimum tax and its interactions with the regular tax system.

*Understanding the Employment Effects of the Work Opportunity Tax Credit:* In support of the Congress's consideration of extending the work opportunity tax credit, GAO reported in March 2001 new information to quell concerns about the possible negative effects of the tax credit. This tax credit is intended to increase the employment and earnings of certain disadvantaged workers by giving employers an incentive to hire and retain these workers. However, the credit may also create incen-

tives for employers to dismiss workers who do not make the employer eligible for the tax credit or to dismiss workers whose eligibility for the credit has ended so they can hire other workers who make the employers again eligible for a tax credit. GAO's analysis of tax data, state employment data, and a survey of employers showed that the deliberate turnovers are likely to be very limited, if occurring at all. This analysis will help the Congress to decide whether to continue the tax credit.

*Strengthening Computer Security Controls:* Trillions of dollars annually flow through key financial systems maintained and operated by Treasury's Financial Management Service and Bureau of the Public Debt and by the Federal Reserve Banks. GAO's follow-up work confirmed that, in response to previous GAO recommendations, Treasury and the Federal Reserve Banks had completed over 70 improvements in computer security controls at their data centers. Aside from aiding in the safeguarding of billions of dollars in collections and disbursements from the risk of fraud, these refinements have helped to reduce misuse or damage of computer resources, disruption of critical operations, and exposure to the risks of inappropriate disclosure and modification of sensitive information.

*Improving Collection of Nontax Debt:* GAO has continued to report on the government's serious collection problems with nontax debt—debt, other than taxes, that is owed to the federal government. GAO promoted centralizing the offset of delinquent debt against federal payments prior to the enactment of the Debt Collection Improvement Act of 1996. GAO was also instrumental in the successful merging of the tax refund and administrative offset programs, now better known as the Treasury Offset Program. Since the program's inception in January 1999 and through July 2001, collections of federal nontax debt from tax refund offsets have increased by \$931 million, including \$677 million during fiscal 1999 and 2000.

*Auditing the U.S. Government's Financial Statements:* For the fourth consecutive year, we found certain material weaknesses in internal control and accounting and reporting issues resulted in conditions that prevented us from being able to provide the Congress and the citizenry an opinion as to whether the U.S. government's consolidated financial statements for fiscal 2000 are fairly stated in

accordance with generally accepted accounting principles. Some progress continues to be made in addressing the underlying causes of these problems—significant financial systems weaknesses, problems with fundamental recordkeeping and financial reporting, incomplete documentation, and weak internal control. However, many of the pervasive and generally long-standing material weaknesses we have reported for the past 3 years remain to be fully resolved. Until the problems we identified are adequately addressed, they will continue to (1) hamper the government in accurately reporting a significant portion of its assets, liabilities, and costs; (2) affect the government's ability to accurately measure the full cost and financial performance of certain programs and effectively manage related operations; and (3) significantly impair the federal government's ability to adequately safeguard certain significant assets and properly record various transactions.

*Improving Federal Financial Management:* As chair of the Joint Financial Management Improvement Program (JFMIP), the comptroller general initiated a series of sessions at which the JFMIP principals (the comptroller general, the secretary of the Treasury, the director of the Office of Management and Budget, and the director of the Office of Personnel Management) discussed pressing governmentwide financial management issues. At these summit conferences, the JFMIP principals focused on defining financial management success measures that go beyond an unqualified opinion on financial statements, addressing impediments to an opinion on the U.S. government's consolidated financial statements, accelerating financial statement reporting, promoting improved financial management systems and human capital practices, and modifying accounting principles for federal agencies in important areas such as social insurance. Through this initiative, the JFMIP principals have developed strategies critical to the full and successful implementation of existing federal financial management reform legislation.

*Improving Accountability and Safeguards for Drug and Firearm Evidence:* GAO identified problems with certain physical safeguards over drug and firearm evidence and the need to strengthen accountability over such evidence in the custody of two key Justice Department agencies. In response to GAO's recommendations, these agencies—the Federal Bureau of Investigation and the Drug

Enforcement Administration—have taken several steps to reinforce adherence to existing policies or revise policies to add clarity regarding accounting for, storing, and destroying drug and firearm evidence. These actions help to reduce the potential for theft, misuse, and loss of such sensitive items and the risk of evidence being compromised for federal prosecution purposes while in the custody of these agencies.

*Improving Financial Management at the Internal Revenue Service:* GAO's work at IRS continues to identify issues that result in lost revenue to the federal government and undue burden to taxpayers. For example, under a legislative mandate, GAO reported that taxpayers do not always receive credit for tax liabilities paid and IRS does not always retain refunds to recover prior amounts owed by taxpayers. GAO also reported that the agency did not always provide for adequate security over taxpayer receipts and data, making tax revenue vulnerable to theft and taxpayers vulnerable to financial crimes. GAO's efforts spurred IRS to begin taking action in fiscal 2001 to address several of these issues. These actions included tightening of requirements for newly hired employees and strengthening standards over the use of couriers to transport tax receipts for deposit.

*Improving the Department of Agriculture's Credit Program Cost Estimates:* Working in conjunction with the Agriculture Department, GAO identified numerous refinements for estimating costs in its credit programs, such as the Rural Development guaranteed loan program and non-housing direct loan programs. These refinements included (1) more thorough analyses of cost drivers, (2) improved cash flow models, and (3) enhanced documentation to support the basis for the cost estimates. As a result, Agriculture's subsidy costs were reduced by about \$566 million, and the refinements should result in more reliable data available to the Congress for decision-making purposes for future years.

*Strengthening Security for Transporting Military Ammunition:* GAO reviewed DOD's procedures for transporting military ammunition and investigated specific transport operations. GAO identified procedural flaws and documented serious security weaknesses. In a classified report and testimony, GAO recommended improvements to the security of in-



transit military ammunition. DOD has initiated steps that address many of the transport deficiencies GAO identified.

*Identifying the Impropriety of Planned Use of the U.S. Enrichment Corporation Fund:* In a legal opinion to the House Appropriations Committee and the Committee on Energy and Commerce, GAO advised of the impropriety of a DOE proposal to use the U.S. Enrichment Corporation (USEC) Fund to maintain a Portsmouth, Ohio, gaseous diffusion processing plant in cold standby. The corporation, a private entity, leased the plant from DOE and took over its operation from a government corporation under the terms of the USEC Privatization Act of 1996. When the corporation decided to close the plant because it could no longer operate economically, DOE announced plans to keep the plant in cold standby for 5 years for possible restart, saying it would cover the \$725 million cost from the USEC Fund. GAO determined that the USEC Fund had been established to pay for the privatization of the government corporation and concluded that the costs of maintaining the Portsmouth plant in cold standby are not expenses of privatization. GAO advised DOE that obligations from the USEC Fund for the costs of the plan would constitute a violation of the Antideficiency Act. In March 2001, DOE announced that it would not use the USEC Fund but would instead request appropriations.

*Questioning the Office of Inspector General's Independence in Certain Audits of the Department of Housing and Urban Development:* In a May 2001 opinion to the inspector general of HUD, GAO advised that because the Office of Inspector General administers the multiagency Operation Safe Home, the office cannot independently and impartially audit and investigate the program's activities under applicable auditing standards. GAO also advised that the inspector general may not be perceived as impartial when auditing HUD's Public Housing Drug Elimination Program because of similarities between that program and Operation Safe Home. GAO recommended that the Congress and the inspector general reconsider the inspector general's involvement in Operation Safe Home.

*Identifying Improper Adjustments to Cancelled Defense Appropriations:* In July 2001, GAO reported that DOD had made at least \$615 million in illegal or otherwise improper adjustments during fiscal 2001

to cancelled appropriations. This violates the 1990 account closing law, which provides that fixed-term appropriations cancel 5 years after expiration. In limited circumstances, agencies may adjust accounting records of closed accounts to correct unrecorded or improperly charged disbursements. However, DOD had not established the requisite systems, controls, and managerial attention to properly account for its disbursements consistent with the 1990 law, which resulted in the illegal and improper adjustments. GAO advised that DOD must reverse the adjustments and effect changes to its systems, policies, procedures, and its overall weak control.

### **Facilitate Governmentwide Management and Institutional Reforms Needed to Build and Sustain High-Performing Organizations and More Effective Government**

*Improving Defense Management Practices:* GAO's work on performance and accountability challenges facing DOD helped focus the attention of the Congress and the administration on the importance of improving government practices, particularly in managing for results. Many of DOD's challenges are high risk because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement. GAO's work set forth a number of recommendations as to how DOD might address these challenges. As a result, DOD initiated a number of DOD-wide reform initiatives and other actions to improve its key business processes in such areas as financial and information management, weapon systems acquisitions, logistics reengineering, and human capital.

*Identifying Strategies for a More Cost-Effective Census:* In a series of congressionally requested reports over the last year, GAO examined the lessons learned from the 2000 Census. GAO identified financial savings and best practices that could help improve the planning and conduct of the next national headcount in 2010. For example, GAO's recommendations for improving the methods the Bureau of the Census used for calculating the productivity of census enumerators provided the Congress and the bureau with better data for future planning and budgeting decisions. Likewise, GAO's work on the bureau's program for partnering with local governments and nonprofits prompted the bureau to implement improvements to make this key promotion and outreach effort more accountable and performance-oriented.

*Instilling a Results Orientation in the Federal Government:* GAO's reviews of the progress 24 major federal agencies made in achieving key programmatic outcomes were instrumental in several of these agencies' improving their focus on results in fiscal 2001. For example, the Office of Personnel Management is developing performance measures for the governmentwide outcomes related to strategic human capital management, including achieving an appropriately constituted and properly skilled federal workforce. Also, in response to GAO's critique, the agency is improving its customer satisfaction surveys to measure performance. In response to GAO's June 2000 recommendations, the Department of Commerce made significant improvements to its annual performance report and plan, such as clearly explaining whether Commerce's performance targets were met or not met. Improvements such as these will provide the Congress and other decision makers a clearer picture of actual federal agency performance.

*Reducing Funding and Improving Internal Controls at Census:* In congressional hearings, GAO identified \$360 million in fiscal 2000 funding for the Census Bureau that was no longer needed. The bureau subsequently reduced its budget request for fiscal 2001 by \$360 million. In addition, GAO identified erroneous travel reimbursements due to weaknesses in the Census Monitoring Board's internal controls. The board subsequently took action to reduce the risk of improper or fraudulent procurement, payroll, or travel payments.

*Reducing Defense Funding:* GAO's review of military personnel budget requests for DOD found that the Army National Guard and Air Force Reserve were requesting more funds than required. Subsequently, DOD reduced its related fiscal 2001 budget submissions by \$15 million. GAO also briefed the Senate Armed Services Committee and the House Appropriations Committee showing excess funding for Army and Air Force work financed through DOD's working capital fund. As a result, the Congress reduced the Army's fiscal 2001 appropriation by \$40.5 million and the Air Force's by \$52.2 million.

*Improving Information Security Assessment Capabilities:* GAO made key contributions to expanding the methods, tools, and expertise needed to evaluate the security of computer-supported government operations and assets. GAO continued to improve

and promote its *Federal Information Security Controls Audit Manual* as a standard guide for federal auditors. GAO also worked with the federal Chief Information Officers Council and the National Institute of Standards and Technology to develop and issue the *Security Self-Assessment Guide for Information Technology Systems*. This guide aided the efforts of many agencies in performing the evaluations required by the Government Information Security Reform provisions enacted in October 2000. In addition, GAO initiated, in early 2001, a joint information security audit project with federal, state, and local auditors to identify needed skill sets and build human capital capabilities, adopt common methods and tools, develop educational materials, and establish technical, legal, and procedural foundations for performing information security audits.

*Reducing Costs in Improving Logistics Systems:* In 1997, GAO reported that DOD's plans for investing in improvements to existing automated logistics systems were not justified because efforts were concurrently planned or under way to privatize certain logistics functions and to acquire new, interoperable logistics systems. Accordingly, GAO recommended that DOD limit spending on existing systems to only those investments that (1) provide a significant return on investment, (2) facilitate privatization of logistics functions, or (3) promote system interoperability. Subsequently, DOD conducted detailed reviews of ongoing efforts to improve existing systems, including analyses of their return on investment. These reviews resulted in two of the ongoing efforts—materiel management systems and depot maintenance systems—being terminated. The combined cost reduction associated with these two efforts was \$622 million over fiscal 2000 and 2001.

*Recapturing Excess Information Technology Funding at Defense:* GAO reviewed, in 1997, DOD's migration systems strategy—which involved replacing functionally duplicative and inefficient information systems with the best existing systems. GAO reported that this strategy was at risk because DOD had not adhered to decision making and oversight processes it had established to ensure that the risks associated with migration projects had been mitigated. As a result of this and our annual analyses of DOD's information technology budget, the Congress reduced DOD's operations and maintenance funding for information technology by about \$298

million. In addition, DOD transferred about \$57 million to the correct appropriation accounts to ensure greater control over expenditure of these funds.

***Improving Air Traffic Control Modernization:*** In response to a series of GAO recommendations in 1997 and 1999, FAA improved the management of its air traffic control system modernization program. For example, FAA established a database for capturing information on projects' costs, schedules, and revisions to these estimates and developed processes to incorporate lessons learned from past projects in developing cost estimates for new projects. These efforts should improve the agency's ability to make reliable cost estimates, which are essential for deciding among alternative investments. FAA also strengthened controls over investments by requiring investment managers to oversee a project's progress on cost, schedule, performance, and risks, which should improve the agency's ability to control and manage its information technology investments. Finally, FAA developed key components of a technical systems architecture and a management structure to maintain that architecture. These actions will improve FAA's ability to ensure that system development efforts are compatible and interoperable.

***Enhancing Security of the Air Traffic Control System:*** Since 1998, GAO has made almost 40 recommendations aimed at improving the security of FAA's air traffic control system. Areas these recommendations addressed included weaknesses in the agency's efforts to protect computer systems, the facilities that house these systems, and the people with access to these systems. In response, FAA has taken significant actions to enhance security by centralizing its information security oversight function within the office of the chief information officer and establishing a computer incident response capability. FAA is also certifying the security of air traffic control facilities and systems and obtaining background checks on contractors working on the systems. These efforts are contributing to the safety of air travel.

***Improving the Understanding of Record Linkage and Privacy:*** In April 2001, GAO reported on privacy issues related to record linkage—a computer-based process that combines multiple sources of existing data. Federally sponsored linkage projects conducted for research and statistical purposes have

many potential benefits, such as informing policy debates and tracking program outcomes, but linkages often involve data on identifiable persons, raising concerns about personal privacy. GAO identified and described how record linkage can create new research and statistical information, why linkage heightens certain privacy issues, and how data stewardship might be enhanced. The GAO report is intended as a first step in providing a roadmap to key issues in this new and still developing field. As such, it is required reading in a class on databases used in health research at Johns Hopkins University, as part of its curriculum to educate doctoral students about privacy and confidentiality issues related to record linkage.

***Disseminating Federal Information in an Electronic Environment:*** GAO's work on information dissemination and access issues provided critical and timely information to the Congress. For example, reporting on the Government Printing Office, in response to a congressional mandate, and the National Technical Information Service, GAO highlighted the significant challenges the government faces in moving to electronic formats for disseminating government publications and discussed the related policy issues confronting the Congress. In addition, GAO reported that agencies had not made electronically available all the documents required under the Electronic Freedom of Information Act. As a result, the Justice Department took immediate action to provide additional guidance to bring agencies into compliance.

***Improving Human Capital Management in Federal Agencies:*** GAO's work on human capital issues, including the 2001 designation of strategic human capital management as a governmentwide high-risk issue, helped broaden understanding within the executive and legislative branches of the critical human capital challenges facing a wide range of agencies and programs. GAO helped spur the administration to make human capital management a governmentwide initiative under the president's management agenda for fiscal 2002. In addition, a growing number of organizations, including HUD, SSA, and EPA, are using GAO's framework for human capital self-assessment to help take a strategic approach to managing their people. GAO also uses this framework internally to help guide its examina-

tion of the challenges and opportunities agencies face in managing human capital to achieve their missions and goals.

*Protecting the Integrity of the Procurement Process:*

GAO is statutorily vested with authority to resolve disputes concerning awards of government contracts. In this role, GAO issues decisions on bid protests, resolving complaints that solicitations for contracts unduly restrict competition or that contracts have been awarded improperly. When a bid protest is found to have merit, GAO recommends actions appropriate to correct the violation of law involved in the procurement at issue. For example, in fiscal 2001, GAO resolved a number of significant bid protests involving public/private competitions under OMB Circular A-76. Bidders challenged issues such as the basis for cost comparisons, organizational conflicts of interest, and unfair competitive advantage. Our decisions on several of these protests are widely viewed as significantly contributing to ensuring a fair process and protecting the integrity of the public/private competitions. Overall, GAO's bid protest decisions constitute a substantial, uniform body of law relied on by the Congress, the courts, contracting agencies, and the public.

**Recommend Economy, Efficiency, and Effectiveness Improvements in Federal Agency Programs**

*Improving Human Capital Management at the Department of Housing and Urban Development:* In September 2000, GAO published a human capital self-assessment checklist to provide agency leaders with a diagnostic tool for assessing their human capital policies and practices. GAO's approach to self-assessment is based on investing in employees and aligning resources and systems to fulfill an agency's shared vision. As part of HUD's implementation of management reforms, agency officials are using GAO's reviews on human capital and the self-assessment checklist as a framework to revamp its overall approach to human capital planning and management.

*Focusing Attention on Major Management Challenges and High-Risk Issues:* In its 2001 *Performance and Accountability Series and High-Risk Update*, GAO identified almost 100 major management challenges and program risks at 21 federal agencies and 22 high-risk areas. GAO also highlighted the actions needed to address these serious

problems. Since 1990, GAO's high-risk list continues to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical service to the public. New to the high-risk list were the Postal Service's transformational efforts and long-term outlook and strategic human capital management, a pervasive challenge across the federal government. The 2001 series also explored the longer-term fiscal implications of current programs and policies and a range of existing and emerging major management challenges and program risks confronting the federal government. The added focus on program and management issues coming out of this report series has clearly resonated across the federal spectrum and yielded valuable benefits. Congressional leaders, who have historically referred extensively to the series in framing oversight hearing agendas, have now also strongly urged the administration and individual agencies to develop specific performance goals to address these pervasive problems. In addition, the president's recently issued management agenda for reforming the federal government mirrors many of the issues that GAO has focused and reported on in this series, including a governmentwide initiative to focus on strategic management of human capital.

*Supporting Congressional and Presidential Transition Efforts:* In 2000, amendments to the Presidential Transition Act of 1963 provided a specific and expanded role for GAO as a key source of information for the incoming administration on the challenges facing the federal government. To meet congressional expectations, GAO took an active role in support of the congressional and presidential transition efforts. For example, GAO worked directly with the new administration's transition team, provided congressional testimony in a statement for the record focusing on five key themes deserving early and consistent attention by administration designees, and made information on important agency and governmentwide issues accessible through an external Web site that was used extensively. GAO executives also met with a number of new members of the Congress and key potential administration nominees. These timely and useful briefings provided a framework for the Congress, in its oversight role, and the new administration as it began to establish plans for dealing with the challenges at hand.

**Better Managing of Chemical and Biological Medical Supplies:** As a result of actions taken in fiscal 2001 to address GAO recommendations, responsible federal agencies are better positioned to respond to chemical and biological terrorist acts. For example, HHS's Centers for Disease Control and Prevention finalized most of its agreements with its partners for storing, managing, and transporting the supplies needed for response. Also, HHS's Office of Emergency Preparedness finalized its inventory requirements list, issued operating plans, and moved supplies in its central location to a more secure and environmentally controlled facility. Finally, the U.S. Marine Corps Chemical-Biological Incident Response Force obtained the funding needed to cover its authorized medical allowance list.

**Identifying Waste, Fraud, and Abuse:** The GAO FraudNET, a system for receiving reports of waste, fraud, and abuse in federally funded programs, handled more than 800 complaints in 2001. Reports of alleged mismanagement and wrongdoing covered topics as varied as misappropriation of funds, security violations, and contractor fraud. Most of the matters reported to GAO were referred to inspectors general of the executive branch for further action or information. Other matters that may indicate broader problems or systemic issues of congressional interest are referred to GAO's Office of Special Investigations or other GAO teams. For example, GAO reported and testified in 2001 on improper costs and mismanagement related to the Anti-Drug Media Campaign of the Office of National Drug Control Policy. GAO developed credible evidence that officials of the Office ignored allegations that its leading media campaign was overbilling and findings by one of its consultants that labor costs under the advertising contract far exceeded industry standards. On the basis of an investigation and an audit of the contract, GAO referred its findings of improper payments to the Justice Department. A criminal investigation of this matter is under way by the U.S. Attorney in the Southern District of New York.

**Recapturing Unexpended Balances in a Federal Housing and Urban Development Program:** GAO reviewed the unexpended balances in HUD's Section 8 program, in which HUD contracts with property owners to provide housing for low-income families. GAO recommended that the Department revise the procedures used to review unexpended balances and ensure that excess balances were recaptured

from this program. Subsequently, HUD recaptured nearly \$3 billion of unexpended balances from prior years' budgets. According to HUD officials, the savings directly resulted from their implementation of GAO's recommendation.

### ***Strategic Goal 4***

*Maximize the Value of GAO by Being a Model Organization for the Federal Government*

#### **Cultivate and Foster Effective Congressional and Agency Relations**

**Strengthening Relationships with GAO's Clients:** In fiscal 2001, GAO continued initiatives to strengthen relationships and improve communications with GAO's clients. GAO finalized and implemented a set of congressional protocols—policies developed to guide interactions with the Congress and to ensure GAO's accountability to the Congress. Also, responding to client requests for materials on legislative branch services, GAO and the Congressional Budget Office developed a video seminar on the congressional oversight process. The seminar was made available to newer members of the Congress and their staff. It provides the information they need to request services and eliminates the former repetitive individual briefings GAO was conducting.

**Improving Interactions with GAO's External Stakeholders:** GAO drafted protocols in fiscal 2001 to guide its interactions with federal agencies, foreign ministries and governments, and international organizations. We solicited comments from members of the Congress, their staff, and agencies and plan to pilot the protocols in fiscal 2002.

GAO worked with OMB and Cabinet-level officials by launching a major effort to assist in the congressional and presidential transitions, using personal meetings and GAO's Internet site to provide new officials and legislators with information about the challenges facing them. GAO also initiated efforts to work across boundaries and encourage knowledge sharing by networking through the comptroller general's various boards and panels, including the Comptroller General's Advisory Board, the Educators' Advisory Board, the Accountability Advisory Board, and the global and domestic working groups of accountability organizations.

*Improving Client Access to GAO's Information:*

GAO expanded and improved access to information for its congressional clients, stakeholders, and others in fiscal 2001. GAO implemented a Web-accessible active assignments list for congressional clients and established both a transition Web site to assist the new Congress and administration in learning about GAO's work and a transition contact management system to ensure a coordinated GAO approach for interacting with the new administration. GAO also assisted the global working group of the International Organization of Supreme Audit Institutions, developing a tool with which the Organization's members may share information through the Web and working on a companion application to facilitate knowledge sharing among federal, state, and local inspector general offices. On its external Web site, GAO improved the search capability for its products, making them much easier to find, and expanded electronic access to GAO reports issued since 1985. In addition, GAO has developed and is testing a Web-based, self-service, subscription-delivery system for GAO products that will roll out early in fiscal 2002.

*Improving GAO's Information on Its Congressional Clients:*

GAO's Congressional Relations office created a Web site in fiscal 2001 that provides GAO employees with a range of congressional client information to help facilitate GAO's interactions with the Congress. Information such as GAO's senior management decisions regarding engagements and automated access to information to help facilitate GAO's interactions with the Congress. In addition, GAO launched a new Hearings Monitoring Program that provides its new employees with exposure to the congressional hearing process.

*Obtaining GAO's Client Feedback on Products:*

In fiscal 2001, GAO developed a new Web-based process for obtaining congressional client feedback on GAO reports and products. The new system, which is being piloted in fiscal 2002, uses a simple E-mail and Web site method for getting client feedback on a sample of products that have been recently issued. The Web site will include a short message that asks respondents to answer five or six questions concerning issues such as timeliness of the product, frequency of communications during engagements, and professional conduct during the engagement review. This systematic new process should enable

GAO to more effectively collect GAO's congressional clients' feedback on reports and products. GAO plans to implement the new system in fiscal 2003.

**Implement a Model Strategic and Annual Planning and Reporting Process**

*Further Developing Strategic Planning and Management Processes:* GAO's strategic plan continues to be a model for aligning our organization and resources, and for ensuring that we remain responsive to the needs of the Congress. Following the spirit of the Government Performance and Results Act and best practices in industry and government, we established a strategic planning process that provides for updates with each new Congress, ongoing analysis of emerging conditions and trends, extensive consultation with congressional clients and outside experts, and assessments of internal capacities and needs. We are following this process once again in our current update to our strategic plan, incorporating the lessons learned earlier and reported in a case study that was published on our Web site for others to use as well. The plan itself has become the basis for managing organizational performance and for allocating resources.

*Improving Accountability:* Our strategic plan also helped GAO to serve as a model in providing clearer accountability to the Congress and the American people. In fiscal 2001, GAO published its first performance and accountability report, combining information on performance in achieving the plan's goals and objectives with financial information on the costs of achieving results. The report also included GAO's performance plan for fiscal 2002, linking planned activities and performance with the resources requested in our annual appropriation. The report is available on GAO's Web site at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).

*Aligning GAO's Resources with Our Strategic Goals:*

To enhance its ability to achieve the goals and objectives of its strategic plan, GAO completed a major organizational realignment in fiscal 2001. The realignment provides for a clearer and more transparent delineation of responsibilities for achieving strategic goals and in meeting the needs of the Congress.

We also created a "virtual" team to facilitate GAO's work on national preparedness. The team will assimilate expertise from across the agency to develop an

integrated, umbrella strategy for GAO's work on national preparedness. The team is coordinating a wide range of activities to ensure that relevant GAO knowledge and resources are enlisted to help ensure that the United States can prevent and respond to terrorist attacks or other catastrophic threats.

In addition, the realignment centralized certain administrative support services to more efficiently provide human capital, report production and publishing, budget and financial management, information systems desk-side support, security and safety, property management, copying and reproduction services, supplies, and mail to agency staff. The centralization will allow GAO to effectively devote more resources to its mission work and obtain economies of scale by providing central and shared services.

#### **Align Human Capital Policies and Practices to Support GAO's Mission**

*Enhancing GAO's Human Capital Strategies:* GAO has made significant progress toward reshaping its human capital profile to support the agency's mission. In fiscal 2001, GAO began implementing some of the new personnel management authorities provided to GAO under the human capital legislation enacted in October 2000. After developing policies for the new voluntary early retirement authority, we provided qualified staff an opportunity to apply for early retirement. In addition, we established the senior-level positions authorized by the legislation and hired several talented individuals. Appendix V provides additional information.

To better identify the knowledge and skills of GAO staff, GAO developed a knowledge and skills inventory for use in workforce planning. The inventory was also used in conjunction with an employee preference survey to relocate staff to teams and positions where their skills were needed to meet our strategic goals.

*Linking Performance and Compensation to Results:* Working from the results of fiscal 2000, when GAO revised its performance standards for all staff to incorporate GAO's core values and strategic goals and to reflect GAO's current work, GAO began a major initiative to develop new performance appraisal systems that use competency-based models and reflect prevailing best practices. In fiscal 2001, GAO completed a new model for its analyst and specialist staff and began work on creating similar per-

formance systems for its attorneys and mission support staff. The model links performance standards to GAO's strategic plan, core values, and skill competencies needed to achieve agency results. GAO will train its analyst staff and implement the new system in fiscal 2002.

During fiscal 2001, GAO reviewed the feasibility of adopting a pay-for-performance system for its mission support staff. During fiscal 2002, GAO will better utilize its existing authority to reward outstanding performance and begin to develop a performance-based compensation system for mission support staff.

*Improving GAO's Recruiting Tools:* During this fiscal year, we revised our recruiting and hiring strategy to facilitate the hiring of diverse, high-caliber staff with the skills and abilities GAO needs to serve the Congress. GAO's 2001 recruiting efforts were highly successful and are a good measure of the agency's rising reputation. In addition, the hiring of these new staff has contributed to addressing the succession planning and structural and skills imbalances facing the agency. We plan to refine our recruitment and hiring programs to target staffing gaps identified through our workplace planning efforts, including the significant percentage of our workforce becoming eligible for retirement. Also, to enhance our recruitment and retention incentives, we established a Professional Development Program for new hires to prepare entry-level staff to fully perform as analysts by acquiring or enhancing the competencies and work experiences that will enable them to succeed at GAO. The program provides for staff to rotate on at least three engagements while in the 2-year program, to develop an individual development plan, and to receive quality supervision and formal and on-the-job training. The program also provides for a speaker series, a hearings program, and an employee network.

*Expanding Training, Professional Development, and Awards:* During fiscal 2001, GAO began an effort to expand training and professional development programs for GAO staff. We started work on developing a core curriculum for managers and staff, focusing on the new GAO competencies, understanding the congressional environment, and achieving excellence in performance.

We took steps to enhance GAO's employee incentive awards program. We increased the budget dedicated to recognizing awards and expanded the program to permit greater recognition of staff.

*Enhancing Communication with Staff:* During fiscal 2001, the agency's Employee Advisory Council (EAC) participated greatly in organizational matters by advising the comptroller general and the Executive Committee on a wide range of issues and facilitating communication between GAO management and the rest of the organization. EAC advised management on issues such as our human capital legislation, the voluntary early retirement program, student loans, the September 11 evacuation, the new performance appraisal system, recruitment and retention, training, diversity, and fairness and equity for all employees. Members of EAC participated on several agencywide initiatives. In addition, EAC established internal operating procedures, an election process for new members, and finalized its charter and bylaws.

The comptroller general continued his outreach to staff through his telecast communications to all agency staff on issues of common interests. The focus of several of these communications this year was human capital initiatives, including the realignment.

#### **Develop Efficient and Responsive Business Processes**

*Enhancing GAO's Guidance and Tracking for Engagements:* During fiscal 2001, GAO developed an Electronic Assistance Guide for Leading Engagements (EAGLE). EAGLE is a comprehensive desktop tool for staff containing GAO's most current policy and procedures for engagements, eliminating the need for printed manuals that require subsequent updates by staff. In addition, GAO developed a New Engagement Database (NED) to track incoming requests to the agency and monitor their status. NED also provides GAO staff with summary information on engagement reviews and on the results of GAO's engagement acceptance meetings conducted by the agency's executive management team.

*Improving GAO's Products and Business Processes:* GAO developed a new reporting product in fiscal 2001, titled Highlights—a one-page summary of key findings and recommendations from a GAO engagement. Client reaction to the Highlights has been

extremely favorable. The Highlights project is the first step in GAO's effort to revamp its communication strategy to meet the needs of its clients. In fiscal 2002, GAO will begin to examine a wide range of methods to communicate the results of GAO's work—audio, video, written, and Internet.

*Improving Internal Processes:* GAO reengineered several of its business operations during fiscal 2001 to provide more efficient and improved support to mission operations. For example, we centralized GAO's budget services, giving representatives responsibility for providing direct budget support to teams and units and for interfacing with financial management and procurement issues. In addition, GAO developed a Web-based scheduling system that allows GAO-wide staff to identify available meeting rooms and reserve them on line. GAO also centralized responsibility for managing classified documents agencywide with the Controller/Administrative Services Office, providing a more efficient and guarded process for protecting classified information. Finally, GAO created Shared Services Centers, which, in addition to self-serve equipment, provide copier and printer support, mail services, property management, and supplies.

*Enhancing GAO Building Security:* In fiscal 2001, GAO built on efforts started in the prior year to enhance GAO building security. In fiscal 2000, GAO increased building security, installing x-ray machines at strategic locations, requiring all occupants to display identification badges, and increasing guard coverage. In fiscal 2001, following the September 11 attacks, GAO upgraded most of these areas and increased security for automobiles entering the building. In addition, in fiscal 2000, the U.S. Army Corps of Engineers conducted a study to determine the capacity of the headquarters building to withstand the blast of a vehicle bomb attack and provided recommendations and costs to correct identified deficiencies. In fiscal 2002, we will begin a multiyear initiative to correct the deficiencies.

#### **Build an Integrated and Reliable Information Technology Infrastructure**

*Developing an Information Technology Architecture for GAO:* GAO made substantial progress in fiscal 2001, implementing an enterprise architecture program—a blueprint for operational and technological change. GAO's program was established in late fiscal 2000. Since then, program staff have worked



closely with GAO's business units responsible for key business processes to develop models of their operations and help them develop more efficient and effective ways of working. GAO recently named a chief architect and formed a steering committee to provide high-level vision, review, and approval of program initiatives to transition from the current technological environment to the target one.

*Improving Security in GAO's Information Technology Systems:* GAO expanded and accelerated efforts in fiscal 2001 in information systems security, recognizing the critical need to protect the agency's information assets. GAO continued progress in achieving full compliance with the information security requirements of OMB's Circular A-130 and focused efforts on implementing a seamless information systems security program addressing risk assessment and controls, security policies, and user education. In addition, GAO organized a Computer Incident Response Team that has drafted incident response procedures, installed network and host-based intrusion detection software to monitor and thwart attempts to hack into the GAO network and compliance monitoring software to track and ensure compliance with security policies and standards, developed and implemented an awareness program promoting security policies and practices, developed a disaster recovery strategy and draft plan to ensure the operation of GAO's essential computer systems should a disaster occur, and acquired and is implementing secure user authentication (a secure user identification token) for access to network resources.

*Implementing Best Practices in GAO's Information Technology:* To ensure that GAO is a leader for the federal government in implementing best practices in information technology management, GAO has initiated and completed several efforts during fiscal 2001. For example, GAO completed a comprehensive review of our information technology and assessed the adaptability of GAO's current information technology architecture to changes in GAO's organization and business processes. We also developed an information technology investment process guide to serve as a tool to help GAO's Information Technology Investment Committee advise on the selection, control, and evaluation of GAO's investments, ensuring that they clearly link to and support GAO's strategic objectives and business plans. Moreover, GAO prepared an information technology plan

for fiscal 2001 to 2004 that identifies major initiatives and investments that directly support GAO's strategic plan. Initiatives in the plan are aligned by five guiding principles—effectiveness and efficiency, connectivity, reliability, model agency, and security.

*Providing GAO Staff With Enabling Technology:* GAO undertook a wide range of efforts during fiscal 2001 to improve efficiency by providing enabling technology to staff and improved access to GAO resources from any place at any time. GAO piloted the deployment of notebook computers to afford staff mobility, expanded the availability of cellular phones to GAO's senior management, and began pilot testing the application of new, emerging technologies to the GAO environment, including personal digital assistants, hand-held E-mail devices, and video broadcasts to the desktop. GAO upgraded remote access capability, improving the speed and reliability of dial-up connections to GAO facilities; completed communications upgrades to the field to provide high-speed, reliable connectivity to the GAO network; and began planning communications upgrades to support evolving video technologies. GAO also replaced aging videoconferencing equipment at headquarters and in the field with up-to-date technology that provides more capabilities and is much more user friendly.

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# *Appendix III*

## *Performance on Qualitative Performance Goals for Fiscal 2000 and 2001*

This appendix provides an assessment of GAO's results under our multiyear qualitative performance goals. We developed qualitative performance goals to help us focus not just on quantitative results like financial benefits and the rate at which our recommendations are implemented but also on the nature of the work that produces those results. We made them multiyear goals because we wanted to focus on bodies of work rather than on individual engagements and that required looking beyond a single year.

Initially, our strategic plan called for our results on the qualitative performance goals to be assessed after 3 years, that is, at the end of fiscal 2002. As we gained experience with using our plan to guide our work and to consult with our congressional clients, however, we realized a 2-year assessment cycle would harmonize better with the 2-year congressional cycle. Hence, we decided to switch our assessment cycle from 3 years to 2 years and to do so by assessing our performance a year early on the performance goals listed here. One consequence of this early assessment is that not all of the work anticipated under these goals has been completed. The efforts will not be abandoned. Instead, they have been incorporated in our qualitative performance goals for fiscal 2002 and 2003 (see app. IV).

At the end of fiscal 2001, our senior executives reviewed documentation of work done on the key efforts for each qualitative performance goal during fiscal 2000 and 2001. Under our strategic goals 1 through 3—which focus on supporting the Congress and improving the federal government—a goal was deemed to have been “met” if GAO had provided information or made recommendations on the goal's key efforts, when viewed collectively. Under our fourth strategic goal, a performance goal was deemed to have been “met” if we had completed the goal's key efforts when viewed collectively. The senior executives' assessments were independently reviewed by GAO's Quality and Risk Management office.

Of the 94 qualitative performance goals, 84 or about 89 percent, were met. For the 10, or roughly 11 percent, that were not met, the tables in this appendix state the reasons and GAO's plans and schedule for meeting those goals during the next assessment period.

## Strategic Goal 1

*Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People by Providing Information and Recommendations on...*

■ Met

□ Not met    Strategic objective/performance goal

### ...the health care needs of an aging and diverse population

- Evaluate Medicare reform, financing, and operations
- Assess trends and issues in private health insurance coverage
- Assess actions and options for improving the Department of Veterans Affairs' and the Department of Defense's (DOD) health care services
- Evaluate the effectiveness of federal programs to promote and protect the public health
- Assess the effectiveness of federal food safety programs

### ....a secure retirement for older Americans

- Assess the implications of various Social Security reform proposals within a developed framework and evaluation criteria
- Identify opportunities to foster greater pension coverage, increase private saving, and ensure adequate retirement income
- Identify opportunities to improve the ability of federal agencies and programs to administer and protect workers' retirement benefits

We completed a significant body of work under this performance goal, issuing 11 reports and making 19 recommendations for improvements. Because of intense client interest, this work focused on cash balance issues and on management at the Pension Benefit Guaranty Corporation and at the Social Security Administration. Without additional resources, we were unable to complete the work in about one half of the other key efforts under this goal. Thus, the goal was not met, primarily because the planned third year of the assessment period was eliminated. It will continue to be a goal for the period 2002–2003, and we anticipate meeting it by September 30, 2003.

### ... the social safety net for Americans in need

- Analyze the results of welfare reform
- Evaluate federal and state program strategies for financing and overseeing chronic and long-term health care
- Assess states' experiences in providing health insurance coverage for low-income populations
- Identify opportunities to provide more cost-effective food assistance programs and housing assistance programs
- Identify ways to improve federal support for people with disabilities
- Analyze the effectiveness and efficiency of child support enforcement and child welfare programs in serving their target populations

### ... an educated citizenry and a productive workforce

- Analyze the effectiveness and efficiency of early childhood care and education programs in serving their target populations
- Assess options for federal programs to effectively address the educational and the infrastructure needs of elementary and secondary students
- Assess opportunities to better manage postsecondary, vocational, and adult education programs and deliver more effective services

## ■ Met

□ Not met **Strategic objective/performance goal**

- Analyze the impact of programs designed to raise worker skills and ensure employers have the workers they need

We made progress toward achieving this goal, issuing nine reports that contained over 20 recommendations. We were unable to begin work under some of the key efforts because the work was to focus on the implementation of the Workforce Investment Act, which was delayed until recently. Thus, the elimination of the planned third year of the assessment period was a key factor in not meeting the goal. This will continue to be a goal for the period 2002–2003, and we anticipate meeting it by September 30, 2003.

- Assess the success of various enforcement strategies to protect workers while minimizing employers' burden in the changing environment of work

**... an effective system of justice**

- Identify ways to improve federal agencies' response to crime

- Assess the effectiveness of federal programs to control illegal drug use

- Identify ways to administer our nation's immigration laws more efficiently and effectively

We completed a body of work on border enforcement as well as on processing applications for benefits. However, we did not provide information or make recommendations on other key efforts under the performance goal because of other unanticipated congressional priorities, including work on election reform. This will continue to be a performance goal for the period 2002–2003, and we anticipate meeting it by September 30, 2003.

- Assess the administrative efficiency and effectiveness of the federal court and prison systems

**... investment in community and economic development**

- Identify how federal agencies can improve the delivery of grants, loans, and other types of economic assistance to communities

We made significant progress toward achieving this performance goal, issuing 10 reports and making numerous recommendations. We did not, however, complete the development of independent measures of program success, an important prerequisite to achieving this goal. Thus, the goal was not met, primarily because the planned third year of the assessment period was eliminated. We have sharpened the focus of the work under this goal for the period 2002–2003, and we anticipate meeting the revised goal by September 30, 2003.

- Assess how the federal government can minimize financial risk in housing finance

- Assess the effectiveness of programs and policies to reduce agriculture's dependence on federal subsidies and improve its competitiveness

- Assess the impact of transportation, telecommunications, and postal policies on competition and consumers

- Assess the costs and outcomes of the federal investment in science and technology programs

- Identify cost-effective and efficient ways to assist small and minority-owned businesses

- Determine how federal disaster assistance costs can be reduced and targeted to the most cost-effective mitigation measures

- Assess the regulatory effectiveness of programs and policies in ensuring access to financial services and deterring fraud and abuse

■ Met

□ Not met    **Strategic objective/performance goal**

**... responsible stewardship of natural resources and the environment**

- Assess the costs and outcomes of federal strategies for managing federally owned lands and the adequacy of legislative and regulatory guidance for resolving conflicts and making choices among competing land uses
- Assess the impact of energy and environmental policies and regulations on the availability of secure and reliable sources of energy
- Assess the costs and outcomes of federal pollution control strategies and opportunities for more cost-effective approaches
- Assess opportunities to improve the management and cleanup of hazardous and nuclear waste sites
- Assess U.S. efforts to address global and international environmental challenges

We made progress toward achieving this performance goal, issuing six reports and making several recommendations. However, because the third year of the assessment period was eliminated, we did not complete all the planned work—including work on issues related to international environmental agreements, cleanup of the Great Lakes, and imports of Canadian softwood lumber. We have incorporated the key efforts from this goal under another of our performance goals for the period 2002–2003, and we anticipate completing the work and meeting the revised goal by September 30, 2003.

**... a safe and efficient national physical infrastructure**

- Identify infrastructure investment needs and spending trends at the federal, state, and local levels; best practices; and potential solutions for improved decision making on infrastructure investments
- Assess alternative methods for financing infrastructure needs
- Analyze the environmental and economic impact of infrastructure on surrounding communities
- Assess efforts to improve safety in all transportation modes
- Assess the viability of the Postal Service and its mission
- Assess the stewardship of the federal facilities portfolio

## ***Strategic Goal 2***

*Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence by Providing Information and Recommendations on ...*

■ Met

□ Not met    **Strategic objective/performance goal**

**... responding to diffuse threats to national and global security**

- Analyze the effectiveness of federal agencies' programs to combat terrorism
- Assess the effectiveness of U.S. programs and agreements to prevent the proliferation of nuclear, biological, and chemical weapons
- Assess U.S. efforts to protect computer-supported critical infrastructure for business and government
- Assess the effectiveness of the Department of Transportation's oversight of domestic and international aviation security

■ Met

□ Not met Strategic objective/performance goal

**... ensuring military capabilities and readiness**

- Assess development of an appropriate and ready force structure of people, weapons, and equipment for the post-cold war period
- Assess improvements in personnel recruiting, retention, and quality of life
- Assess DOD's ability to acquire and modernize weapons systems cost-effectively
- Assess improvements in the responsiveness and effectiveness of logistical support systems and support infrastructure
- Assess the Department of Energy's efforts to maintain a safe and reliable nuclear weapons stockpile
- Assess DOD's ability to retain information superiority on the battlefield

**... advancing and protecting U.S. international interests**

- Analyze the plans, strategies, costs, and results achieved from U.S. interventions
- Analyze the effectiveness and management of foreign aid programs and the tools to carry them out
- Analyze the costs and implications of U.S. military alliances and commitments

A significant body of work related to this performance goal was started in fiscal year 2001 and will be completed in fiscal year 2002. One of the first reports from this work—on U.S. and European efforts to foster security and stability in Europe—was issued in December 2001. This goal was not met because the planned third year of the assessment period was eliminated and key efforts under this goal have been refocused for the period 2002–2003 to reflect changes since September 11, 2001; we anticipate meeting the goal by September 30, 2003.

- Evaluate the efficiency and accountability of the United Nations and related multilateral organizations and the extent to which they are serving U.S. interests
- Assess the strategies used to manage U.S. foreign affairs functions and activities

**... responding to the impact of global market forces on U.S. economic and security interests**

- Analyze how key trade agreements and programs serve U.S. interests
- Improve understanding of the effects of defense industry globalization
- Assess how the United States can influence improvements in the world financial system and address crises
- Address the ability of the financial services industry and its regulators to maintain a stable and efficient financial system in an era of global electronic commerce
- Evaluate how prepared financial regulators are to respond to change and innovation

### *Strategic Goal 3*

*Support the Transition to a More Results-Oriented and Accountable Federal Government by ...*

■ Met

□ Not met Strategic objective/performance goal

**... analyzing the federal government's long-term and near-term fiscal position, outlook, and options**

- Address the long-term fiscal health of the federal government

■ Met

□ Not met    **Strategic objective/performance goal**

■ Analyze the structure and information for budgetary choices

■ Promote effective management of resources

■ Identify implications of various governmental tools using third parties in federal programs

**... strengthening approaches for financing the government and determining accountability for the use of taxpayer dollars**

■ Support congressional oversight of the Internal Revenue Service's modernization and reform efforts

■ Contribute to congressional deliberations on tax policy

■ Strengthen accountability for the federal government's assets and operations

**... facilitating governmentwide management and institutional reforms needed to build and sustain high-performing organizations and more effective government**

■ Analyze and support efforts to instill results-oriented management across the government

■ Identify needed improvements to the government's financial management infrastructure

■ Help build the government's capacity to manage information technology to improve performance

■ Enhance efforts to manage the collection, use, and dissemination of government information in an era of rapidly changing technology

■ Identify and facilitate the implementation of human capital practices that will improve federal economy, efficiency, and effectiveness

■ Improve acquisition policies and practices

**... recommending economy, efficiency, and effectiveness improvements in federal agency programs**

■ Highlight the specific major management challenges confronting agencies and those federal operations at highest risk of fraud, waste, abuse, and mismanagement

■ Review the economy, efficiency, and effectiveness of key federal agencies and activities

### *Strategic Goal 4*

*Maximize the Value of GAO by Being a Model Organization for the Federal Government by ...*

■ Met

□ Not met    **Strategic objective/performance goal**

**... cultivating and fostering effective congressional and agency relations**

■ Strengthen communications with our congressional clients

■ Implement clearly defined, consistently applied, well-documented, and transparent policies and protocols for working with the Congress and agencies

■ Improve internal processes to help GAO's senior executives and staff better serve the Congress

## ■ Met

□ Not met **Strategic objective/performance goal****... implementing a model strategic and annual planning and reporting process**

- Use a strategic planning process that meets the intent of the Government Performance and Results Act
- Develop a performance tracking system and publish annual performance plans and reports
- Realign organizational structure and resources to the strategic goals and objectives

**... aligning human capital policies and practices to support GAO's mission**

- Develop and implement a strategic human capital plan

We made substantial progress under this performance goal—including completing a human capital self-assessment, identifying high-priority human capital initiatives, developing staffing and hiring plans for all teams, and developing a recruiting plan that targets hiring based on skill needs to carry out our strategic plan to serve the Congress. We are on schedule to complete the human capital plan in fiscal year 2002. Some of the unfinished key efforts were dependent upon completion of the mission support realignment, finished in September 2001. Completing a strategic human capital plan will be a key effort under a broader goal related to human capital management for the period 2002–2003.

- Implement an approach to assessing and inventorying knowledge and skills needed to meet our strategic goals and objectives

- Update appraisal systems to support the agency's core values, strategic plan, and performance goals

We made significant progress under all key efforts related to this performance goal. For example, we developed a new competency model and performance standards for our analysts that, in turn, were used to develop a new analyst performance appraisal system to be implemented in fiscal year 2002. However, work planned for the third year still remains. By fiscal year 2003, we will design and implement similar systems for our mission support staff and attorneys. These key efforts are included under a broader performance goal to improve compensation and performance management systems for the period 2002–2003.

- Improve recruitment, training/development, and recognition/reward programs

**... developing efficient and responsive business processes**

- Continue improving the job management process and other business processes to be more responsive to our clients' needs, reduce administrative burden, and expedite product issuance

We made good progress toward this performance goal. We made improvements to the job management process that included the implementation of an electronic desktop guide to assist staff in carrying out engagements, institutionalizing a risk management approach to designing engagements and developing quality products, and updating and streamlining our report production process. We also implemented enhancements to building security and upgraded our high-speed printing plant. However, we did not complete all work planned—such as implementing a new travel system and implementing recommendations from a job management process simplification team—and this goal will continue for the period 2002–2003. We anticipate meeting it by September 30, 2003.



■ Met

□ Not met

**Strategic objective/performance goal**



Reengineer our product and service lines

We made progress toward this goal, developing a one-page reporting product and establishing a Web site to assist the incoming congressional and administration officials and their staffs in learning about GAO's work. Completion of several key efforts under this goal is linked to an ongoing internal reassessment of report production processes, the development of a GAO communications strategy, and substantial client input. This will continue to be a goal for the period 2002–2003, and we anticipate meeting it by September 30, 2003.



Enhance coordination with the Congressional Budget Office and the Congressional Research Service to increase opportunities for collaboration and consultation

**... building an integrated and reliable information technology infrastructure**



Develop a long-term comprehensive plan for an integrated information technology approach



Develop and implement a short-term cost-effective approach that begins to satisfy GAO's information needs quickly



Establish performance and cost metrics addressing the quality and value of information technology services



Ensure the availability of required information technology skills

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# Appendix IV

## *Qualitative Performance Goals for Fiscal 2002 and 2003*

This appendix lists GAO's strategic goals and the strategic objectives for each goal. They are part of our updated draft strategic plan (for fiscal 2002 through 2007), which is now under review.

Organized below each strategic objective are its qualitative performance goals. The performance goals lay out the work we plan to do in fiscal 2002 and 2003 to help achieve our strategic goals and objectives. We will evaluate our performance at the end of fiscal 2003 using the criteria explained in the Data Quality and Program Evaluation section of this report.

### *Strategic Goal 1*

*Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People*

To achieve this goal, we will provide information and recommendations on the following:

#### **...the Health Care Needs of an Aging and Diverse Population**

- evaluate Medicare reform, financing, and operations;
- assess trends and issues in private health insurance coverage;
- assess actions and options for improving the Department of Veterans Affairs' and the Department of Defense's (DOD) health care services;

- evaluate the effectiveness of federal programs to promote and protect the public health;
- evaluate the effectiveness of federal programs to improve the nation's preparedness for the public health and medical consequences of bioterrorism;
- evaluate federal and state program strategies for financing and overseeing chronic and long-term health care; and
- assess states' experiences in providing health insurance coverage for low-income populations.

#### **...the Education and Protection of the Nation's Children**

- analyze the effectiveness and efficiency of early childhood education and care programs in serving their target populations;
- assess options for federal programs to effectively address the educational needs of elementary and secondary students and their schools;
- determine the effectiveness and efficiency of child support enforcement and child welfare programs in serving their target populations; and
- identify opportunities to better manage postsecondary, vocational, and adult education programs and deliver more effective services.

#### **...the Promotion of Work Opportunities and the Protection of Workers**

- assess the effectiveness of federal efforts to help adults enter the workforce and to assist low-income workers;
- analyze the impact of programs designed to maintain a skilled workforce and ensure employers have the workers they need;
- assess the success of various enforcement strategies to protect workers while minimizing employers' burden in the changing environment of work; and
- identify ways to improve federal support for people with disabilities.

**...a Secure Retirement for Older Americans**

- assess the implications of various Social Security reform proposals;
- identify opportunities to foster greater pension coverage, increase personal saving, and ensure adequate and secure retirement income; and
- identify opportunities to improve the ability of federal agencies to administer and protect workers' retirement benefits.

**...an Effective System of Justice**

- identify ways to improve federal agencies' ability to prevent and respond to terrorist acts and other major crimes;
- assess the effectiveness of federal programs to control illegal drug use;
- identify ways to administer the nation's immigration laws to better secure the nation's borders and promote appropriate treatment of legal residents; and
- assess the administrative efficiency and effectiveness of the federal court and prison systems.

**...the Promotion of Viable Communities**

- assess federal economic development assistance and its impact on communities;
- assess how the federal government can balance the promotion of home ownership with financial risk;
- assess the effectiveness of federal initiatives to assist small and minority-owned businesses;
- determine how federal disaster assistance can enhance national preparedness and capacity to respond to and recover from natural and man-made disasters; and
- assess how well federally supported housing programs meet their objectives and affect the well-being of recipient households and communities.

**...Responsible Stewardship of Natural Resources and the Environment**

- assess the nation's ability to ensure reliable and environmentally sound energy for current and future generations;

- assess federal strategies for managing land and water resources in a sustainable fashion for multiple uses;
- assess federal programs' ability to ensure a plentiful and safe food supply, provide economic security for farmers, and minimize agricultural environmental damage;
- assess federal pollution prevention and control strategies; and
- assess efforts to reduce the threats posed by hazardous and nuclear wastes.

**...a Secure and Effective National Physical Infrastructure**

- assess strategies for identifying, evaluating, prioritizing, financing, and implementing integrated solutions to the nation's infrastructure needs;
- assess the impact of transportation and telecommunications policies and practices on competition and consumers;
- assess efforts to improve safety and security in all transportation modes;
- assess the Postal Service's transformation efforts to ensure its viability and accomplish its mission; and
- assess federal efforts to plan for, acquire, manage, maintain, secure, and dispose of the government's real property assets.

***Strategic Goal 2***

*Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence*

To achieve this goal, we will provide information and recommendations on the following:

**...Diffuse Threats to National and Global Security**

- analyze the effectiveness of the federal government's approach to providing for homeland security;
- assess U.S. efforts to protect computer and telecommunications systems supporting critical infrastructures in business and government; and

- assess the effectiveness of U.S. programs and international agreements to prevent the proliferation of nuclear, biological, chemical, and conventional weapons and sensitive technologies.

#### **...Military Capabilities and Readiness**

- assess the ability of DOD to maintain adequate readiness levels while addressing the force structure changes needed in the 21<sup>st</sup> century;
- assess overall human capital management practices to ensure a high-quality total force;
- identify ways to improve the economy, efficiency, and effectiveness of DOD's support infrastructure and business systems and processes;
- assess the National Nuclear Security Administration's efforts to maintain a safe and reliable nuclear weapons stockpile;
- analyze and support DOD's efforts to improve budget analyses and performance management;
- assess whether DOD and the services have developed integrated procedures and systems to operate effectively together on the battlefield; and
- assess the ability of weapon system acquisition programs and processes to achieve desired outcomes.

#### **...Advancement and Protection of U.S. International Interests**

- analyze the plans, strategies, costs, and results of the U.S. role in conflict interventions;
- analyze the effectiveness and management of foreign aid programs and the tools used to carry them out;
- analyze the costs and implications of changing U.S. strategic interests;
- evaluate the efficiency and accountability of multilateral organizations and the extent to which they are serving U.S. interests; and
- assess the strategies and management practices for U.S. foreign affairs functions and activities.

#### **...the Impact of Global Market Forces on U.S. Economic and Security Interests**

- analyze how trade agreements and programs serve U.S. interests;

- improve understanding of the effects of defense industry globalization;
- assess how the United States can influence improvements in the world financial system;
- assess the ability of the financial services industry and its regulators to maintain a stable and efficient global financial system;
- evaluate how prepared financial regulators are to respond to change and innovation; and
- assess the effectiveness of regulatory programs and policies in ensuring access to financial services and deterring fraud and abuse in financial markets.

### ***Strategic Goal 3***

*Help Transform the Government's Role and How It Does Business to Meet 21<sup>st</sup> Century Challenges*

To achieve this goal, we will provide information and recommendations on the following:

#### **...the Implications of the Increased Role of Public and Private Parties in Achieving Federal Objectives**

- analyze the modern service-delivery system environment and the complexity and interaction of service-delivery mechanisms;
- assess how intergovernmental relationships and the participation of nongovernmental organizations affect the implementation of federal programs and the achievement of national goals; and
- assess the effectiveness of regulatory administration and reforms in achieving government objectives.

#### **...the Government's Capacity to Better Deliver Public Services**

- identify and facilitate the implementation of human capital practices that will improve federal economy, efficiency, and effectiveness;
- identify ways to improve the financial management infrastructure capacity to provide useful information to manage for results and costs day to day;
- assess the government's capacity to manage information technology to improve performance;

- assess efforts to manage the collection, use, and dissemination of government information in an era of rapidly changing technology;
- assess the effectiveness of the Federal Statistical System in providing relevant, reliable, and timely information that meets federal program needs; and
- identify more business-like approaches that can be used by federal agencies in acquiring goods and services.

**...the Federal Government's Progress toward Being More Results-Oriented, Accountable, and Relevant to Society's Needs**

- analyze and support efforts to instill results-oriented management across the government;
- highlight the federal programs and operations at highest risk and the major performance and management challenges confronting agencies;
- identify ways to strengthen accountability for the federal government's assets and operations;
- promote accountability in the federal acquisition process;
- assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property; and
- identify ways to improve the quality of evaluative information and explore the use of governmentwide performance indicators to gauge progress in meeting societal needs.

**...the Government's Fiscal Position and Approaches for Financing the Government**

- analyze the long-term fiscal position of the federal government;
- analyze the structure and information for budgetary choices and explore alternatives for improvement;
- contribute to congressional deliberations on tax policy;
- support congressional oversight of the Internal Revenue Service's modernization and reform efforts; and
- assess the reliability of financial information on the government's fiscal position and financing sources.

**Strategic Goal 4**

*Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization*

To achieve this goal, we will do the following:

**...Sharpen GAO's Focus on Clients' and Customers' Requirements**

- continuously update client requirements;
- develop and implement stakeholder protocols and refine client protocols; and
- identify and refine customer requirements and measures.

**...Enhance Leadership and Promote Management Excellence**

- foster an attitude of stewardship to ensure a commitment to GAO's mission and core values;
- implement an integrated approach to strategic management;
- continue to provide leadership in strategic human capital management planning and execution;
- maintain integrity in financial management;
- use enabling technology to improve GAO's crosscutting business processes; and
- provide a safe and secure workplace.

**...Leverage Institutional Knowledge and Experience**

- expand GAO's use of the World Wide Web as a knowledge tool;
- develop a framework to manage the collection, use, distribution, and retention of organizational knowledge; and
- strengthen relationships with other national and international accountability and professional organizations.

**...Continuously Improve Our Business and Management Processes**

- reengineer internal business and administrative processes;
- reengineer GAO's product and service lines; and
- improve GAO's job management processes.

**...Become the Professional Services Employer of Choice**

- maintain an environment that is fair, unbiased, family-friendly, and promotes and values opportunity and inclusiveness;
- improve compensation and performance management systems;
- develop and implement a training and professional development strategy targeted toward competencies; and
- provide our people with tools, technology, and a working environment that is world-class.

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# *Appendix V*

## *Report on the Implementation of the GAO Personnel Flexibility Act of 2000*

### *Actions Taken Under the Authority of Public Law 106-303*

As required by section 6 of Public Law 106-303 enacted on October 13, 2000, we are providing a review of the actions the agency has taken to implement the human capital flexibilities authorized by this act.

#### *Section 1. Voluntary Early Retirement*

The GAO Personnel Flexibility Act allows the comptroller general to offer agency employees voluntary early retirement when necessary and appropriate to realign GAO's workforce to meet budgetary constraints or mission needs; correct skill imbalances; or reduce high-grade, managerial, or supervisory positions. The development of the agency's regulations involved collaboration with our Employee Advisory Council and consideration of employees' comments. Draft regulations were shared with the Employee Advisory Council in December 2000. An agencywide, 30-day comment period followed. Over 60 comments were submitted by employees and were fully considered before the issuance of GAO Order 2831.1, Voluntary Early Retirement Authority, on April 27, 2001.

After the regulations were developed, planning began for an early retirement opportunity. Consistent with the act, the comptroller general may offer early retirement based on criteria that include

geographic area, organization, occupational group, grade or band level, skills, knowledge, or performance. Criteria were developed that centered the eligibility for early retirement on organizations and skill groups for which future growth is not anticipated. In addition, we focused on adjusting the shape of the agency by permitting retirements among higher-graded and managerial staff. Our regulations permit any employee, whether covered by the criteria or not, to apply for early retirement when an announcement is open. These individuals were considered on a case-by-case basis, taking into account individual facts and circumstances. Our managing directors and Employee Advisory Council were briefed on the proposed criteria and plans for the early retirement period and were given an opportunity to comment.

Our first early retirement opportunity opened on July 16, 2001, for a 45-day period. To assist employees, we posted the announcement, questions and answers, and the retirement application on GAO's intranet. The comptroller general subsequently approved 72 retirement applications. Fifty-six of the applicants separated from the agency between October 1, 2001, and January 3, 2002, and 16 approved applicants withdrew their requests prior to their separation dates. To maintain the resources needed to support our strategic plan and deliver on our commitments to the Congress, the comptroller general did not approve the applications of six other employees.

#### *Section 2. Voluntary Separation Incentive Payments*

GAO is developing the regulations necessary to implement the provision of the act that allows the comptroller general to authorize voluntary separation incentive payments. Authority to offer separation incentive payments is limited each year to no more than 5 percent of onboard staff at the beginning of the fiscal year and is available through

December 31, 2003. However, because of the high cost of retirement fund contributions, we have no immediate plans to exercise this authority.

### *Section 3. Reduction in Force*

Section 3 authorizes the comptroller general to issue revised regulations for the separation of employees during a reduction in force (RIF) or other adjustment in force. In addition to conducting a RIF in response to budget constraints, the comptroller general may conduct a RIF when necessary to realign the agency's workforce, to correct skill imbalances, and to reduce high-grade, supervisory, and managerial positions. We are developing revised regulations in the event we may need to implement this provision, and we plan to consult with our employees and managers and solicit their comments. The reporting requirements of the GAO Personnel Flexibility Act require us to report RIF-related actions and separations and to assess the impact on those eligible for preferences. Because no separations or related actions using RIF procedures have been taken, there has been no impact to date on the agency's veterans.

### *Section 4. Senior-Level Positions*

Section 4 of the GAO Personnel Flexibility Act authorized the agency to establish senior-level positions to address the ongoing need for critical scientific, technical, and professional expertise. Individuals appointed to these positions are subject to the same laws and regulations as GAO's Senior Executive Service with regard to rates of basic pay, performance awards, ranks, annual leave ceilings, benefits, performance appraisals, removals or suspensions, RIFs, and rights of appeal to the GAO Personnel Appeals Board.

Throughout the process of developing the agency's regulations implementing this provision, we consulted with GAO's managers and employees. We provided our Employee Advisory Council with regular updates on the progress of the regulations' development and with a draft of the regulations in December 2000. All employees were notified by e-mail of the opportunity to comment during the agencywide 30-day comment period beginning January 2, 2001. All comments were fully considered. The resulting GAO Order 2319.1, GAO

Senior-Level Positions, along with a summary of the changes made to the draft as a result of the comments, was posted to the agency's intranet on March 22, 2001.

Since the issuance of the regulations, GAO has appointed eight individuals to senior-level positions. These senior-level experts serve in the areas of technology, economics, accounting, statistics, and performance and accountability. Their skills and expertise are critical if GAO is to be a world-class professional services organization. A competitive process open to GAO employees was used to fill four positions in the technology area. Using announcements in professional journals, we recruited externally for a chief economist and received numerous applications. Our Executive Resources Board determined and forwarded the best-qualified candidates to the comptroller general for selection. In addition to the competitive process, three individuals who were eligible for noncompetitive appointments from GAO's Senior Executive Service were selected. We foresee our senior-level appointment authority as an important element in ensuring that GAO has the necessary expertise to serve the Congress and the American people effectively.

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As required by the act, we will provide an assessment of the effectiveness of these provisions in supporting the agency's goals and objectives in future reports, along with any proposals for additional legislation.



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# Appendix VI

## List of Acronyms

AICPA	American Institute of Certified Public Accountants	GAAP	generally accepted accounting principles
AIDS	acquired immunodeficiency syndrome	GAO	General Accounting Office
COE	Corps of Engineers (U.S.Army)	GISRA	Government Information Security Reform Act
CPA	certified public accountant	GSA	General Services Administration
CPE	continuing professional education	HHS	Department of Health and Human Services
CSRS	Civil Service Retirement System	HIV	human immunodeficiency virus
DOD	Department of Defense	HUD	Department of Housing and Urban Development
DOE	Department of Energy	IG	inspector general
DOL	Department of Labor	INTOSAI	International Organization of Supreme Audit Institutions
EAC	Employee Advisory Council	IRS	Internal Revenue Service
EAGLE	Electronic Assistance Guide for Leading Engagements	IT	information technology
FAA	Federal Aviation Administration	JFMIP	Joint Financial Management Improvement Program
FASAB	Federal Accounting Standards Advisory Board	K-12	kindergarten through 12 <sup>th</sup> grade
FBI	Federal Bureau of Investigation	NATO	North Atlantic Treaty Organization
FECA	Federal Employees' Compensation Act	NED	New Engagement Database
FEGLIP	Federal Employees Group Life Insurance Program	OMB	Office of Budget and Management
FEHPB	Federal Employees Health Benefit Program	OPM	Office of Personnel Management
FEMA	Federal Emergency Management Agency	PDA	personal data assistant
FERS	Federal Employees Retirement System	P.L.	Public Law
FFMIA	Federal Financial Management Improvement Act	RIF	reduction in force
FHA	Federal Housing Administration	SFFAS	Statement of Federal Financial Accounting Standards
FICA	Federal Insurance Contributions Act	SSA	Social Security Administration
FMFIA	Federal Managers' Financial Integrity Act (now 31 U.S.C. 3512)	USAID	United States Agency for International Development
		U.S.C.	United States Code
		USEC	U.S. Enrichment Corporation
		VA	Department of Veterans Affairs
		Y2K	Year 2000